



# The Journal of Indian Management & Strategy

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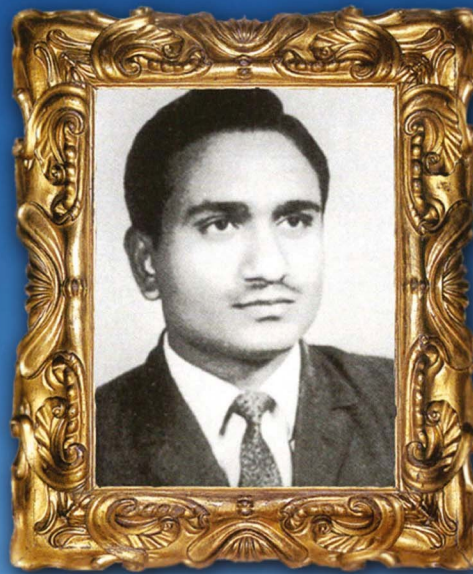
◀ Research

◀ Book Review

# A TRUE VISIONARY

*“You see things and you say **Why?** But I dream of things that never were and say **Why not?**”*

- George Bernard Shaw



Shri Jagannath Gupta  
(1950 - 1980)

*Also a true visionary...who dared to dream!  
He lives no more but his dreams live on....and on!*

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*And more dreams to come!*



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## Editor's Desk

### “Are you learning enough?”

Learning has always been the need of the hour. People learn from mistakes, foster knowledge sharing among peer groups and engage in holistic thinking. Learning has been said to be the building blocks of one's personality, they have been said to be the basis for career development, and authors emphasize on lifelong learning but a bigger question that comes to my mind is that is my learning sufficient to sustain me in different spheres of life. Can there be a system through which one can identify the sustenance of the learning model? Can we define a model to ensure the learning happens that to knowingly?

People need to learn more than ever as most of the organizations are moving to become learning organizations. The concept is not new. It flourished in the 1990s, stimulated by Peter M. Senge's 'The Fifth Discipline' and numerous publications, and workshops pushed it harder. People who are the building blocks for any organization, if develop an appetite to learn, then the organization's with whom they are working automatically becomes a learning organization. Since it is these people only who get skilled at creating, acquiring and transferring knowledge. These people help their firms cultivate tolerance, foster open discussion and think holistically and systemically. How to develop the learning skills among yourself a small framework drawn from various literature and simplified is presented for reference. This is something which can be implemented by you.

Firstly a supportive learning environment to be built around you. An environment that supports learning should give psychological safety. To learn, one cannot fear being belittled or marginalized when they disagree or ask naive questions, own up to mistakes. Instead, they must be made comfortable expressing their thoughts about the work on hand. We need to appreciate differences. Learning occurs when people become conscious of opposing ideas. Recognizing the value of competing outlooks and alternative worldviews sparks fresh thinking, and develops interests along with motivation. You got to be open to new ideas. Learning isn't simply about correcting mistakes and solving problems. It is also about crafting novel approaches. We should take risks and explore the untested and unknown. We need to have time for reflection. At times we are judged by the tasks accomplished and so we do for the others also. Identification of people's ability to think analytically and creatively is important and should be recognized. Supportive learning environments allow time for an interruption within the action and encourage thoughtful review of the organization's processes.

A learning culture has to be cultivated it arises from a series of concrete steps and widely distributed activities. For maximum impact, knowledge must be shared in systematic and clearly defined ways. Sharing can take place among individuals or groups. The knowledge-sharing process are often internally focused, with an eye toward taking corrective action. Right after a project is completed, a self-exploration might help which can then be shared with others engaged in similar tasks. Four simple questions: What did we set out to do? What actually happened? Why did it happen? What do we do next time? The answers give us insight into what do we need to improve. Alternatively, knowledge sharing can be externally oriented, as an example, it'd include regularly scheduled forums with subject-matter experts to gain their perspectives on the challenges. Together, these concrete processes ensure that a learning quotient is being created.

(Ashok Sharma)

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# PUSH FACTORS OF CROSS BORDER M&A PERFORMANCE BY INDIAN FIRMS

Sheeba Kapil\* Puneet Kaur Dhingra\*\*

**Purpose** - Overseas M&A transactions have gained popularity during the last decade. The extant research on the same has some gaps, which need to be addressed and attempts to identify characteristics of acquiring firms have been carried out in this paper.

**Design/methodology/approach** - Multivariable linear regression was used to analyze the impact of firm's age, free cashflows, public ownership and pre acquisition net income on post a cross- border merger & acquisition performance.

**Findings** – The research points the importance of public ownership or listing status along with having a positive influence on making the outbound M&A decision a fruitful one for the acquirer Indian firm.

**Originality/value** - This research endeavors to fill research gaps concerning the increasing number of transaction value and volume of cross border M&A transactions by Indian firms during the past decade, contributing to international business extant literature along with generating some valuable policy implications.

**Keywords:** Outbound cross border M&A, Indian firms, post M&A performance.

**JEL classification:** F21, F23, G34

There has been a significant surge in outward overseas investment by Indian companies (Goldstein, 2009; Ramamurti and Singh, 2009; Sauvant et al., 2008, 2010; Kumar 2000; Bhoi 2000). Its number of largest host country is now more than 100 with USA, UK, Singapore acknowledging a major proportion of its outward investment share.

Following the world-wide liberalization and relaxation of cross-border investments, Indian firms also began to undertake rigorous investments and went on capturing foreign markets via not just export but fostering greenfield and brownfield investments. The contribution of OFDI to India's GDP grew phenomenally from 0.39% in 1990 to 5.8% in 2010. Also, the absolute growth in Indian OFDI from 1990 to 2010 is 54.91% with a magnificent rise of 809% in Indian parent companies during the same period. And so, overseas M&A emerged as an important process of business restructuring in Indian scenario, getting more emphasis over greenfield investments. This brings us to a dire need to comprehend this unfathomable growth in the Indian overseas investment sector. Most of the research done on above scenario generally relates to review of extant theories or literature available or discussions in the form of case studies. Acknowledging the importance of the issue, any strong empirical study was hard to find, hence this paper systematically attempts to analyze the impact of determinants over the economic performance of Indian firms post outbound cross-border M&A activity, also enabling us to identify the characteristics of an acquirer. We hope the findings turn to be a fruitful resource addition in the existing purview of literature, benefitting prospective Indian firms leaping towards investing overseas via M&A activity.

The paper is organized as follows; the trajectory brief of cross border M&A activities of Indian companies have been

reviewed in this section i.e. section 1 of this paper. Hypothesis are developed after a concise review of literature in section 2, followed by section 3 which describes the methodology adopted. Finally, results are analyzed in section 4, superseded by conclusion at the end.

## I. Review of Literature

There are certain firm characteristics which enable a firm to make acquisitions, and hence one is able to differentiate between an acquiring firm and a non-acquiring firm on the basis of those factors.

It has been empirically proven that firms can be bifurcated into acquiring and non-acquiring firms (Gorton et. al., 2009; Trahan, 1993). Larger firms were identified as acquirer firms by Gorton et. al. (2009) and Trahan (1993). Further their stock market valuation is high (Bouwman et. al., 2006; Trahan, 1993; Rhodes et. al., 2004) perform better on measures like return on assets or return on equity (Trahan, 1993), and have additional capacity to accommodate more leverage (Huyghebaert et. al., 2010). Trahan (1993) also suggested that such acquirer firms have large accumulation of free cash flows (Jemison, 1986) while their growth ratios tend to be low.

It has been suggested by organization learning theory that acquisition activity of firms is propelled by their previous

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acquisition experience, its performance outcome and the interaction between the two (Haleblian, Kim, & Rajagopalan, 2006; Collins, Holcomb, Certo, Hitt, & Lester, 2009). Better liquidity ratio is one of the characteristics of the firm that acquire US-based firms, whose price to earnings ratio is low (Gonzalez et. al.,1997), these acquirer firms also reflect financial advantages in terms of large asset base and deep pockets, and keen interest in outbound deals.

There is a notable difference in acquirer firms involving in cross border acquisitions and domestic acquisitions. Overseas acquisitions are targeted by firms with high market to book value ratio, low cash in hand levels, along with cross listings on major stock exchanges and good equity valuation (Forssbäck & Oxelheim, 2011), viz-a-vis firms aiming at domestic acquisition. Gorton et. al. (2009) points towards another significant determinant of cross border acquisitions, which size of the firm and the industry. However there is another school of thought that enterprises acquire other firms to increase their size in order to avoid being acquired or become possible targets.

Outbound M&A deals are a result of majorly two broad factors, external macroeconomic factors of home and host country namely economic growth, political stability, human capital, etc, while other set of factors are internal and specific to a company, like their resources and capabilities.

In all we aim to capture firm specific factors such as pre acquisition performance, free cash flows, firm age and public ownership, affecting its post-acquisition performance. Here we will be focussing on the latter, with hypothesis reflecting on the relationship between acquiring firm characteristics and post-acquisition performance.

### **Pre-acquisition Performance**

In 1991, Sarvaes's towards positive association of tobin q value of the acquiring firm with the shareholders' gain of acquirer as well as target company, supporting Lang et.al. (1989) research findings. Chinese companies' pre-acquisition performance and M&A activities undertaken were found to have a positive association as per a study conducted by Wu Changqi and Xie Ningling in 2010, further strengthening the research findings of Andrade and Stafford (2004), Dessyllas and Hughes (2005). In 2008, Duflos and Pfister's research study show that acquirer firm with low tobin q lack growth potential in future, aligning well with the study findings of Jovanovic and Rousseau (2004) which states that firms with higher tobin q should acquire firms with lower tobin q. While no clear relationship between tobin q and merger intensity was witnessed in a research conducted by Andrade and Stafford in 2004, also Danzon et. al. (2007) pointed out that in pharmaceutical and biotech industries, acquiring firms generally have low tobin q.

*Hypothesis 1: Pre-acquisition performance of Indian companies (acquirer) is positively related to its post-acquisition performance.*

### **Free Cash-Flows**

As per the research of M.Kirchhoff et.al. (2011) on pharma and biotech companies, a considerable amount of free cash flows indicating a higher liquidity plays a considerable role of a motivating factor to take up M&A activities. These research findings point out to the fact that typical pharma companies with solid cash sales generally acquire biotech companies with insufficient funds and a promising future research to provide for pharma companies' drying product and patent line. However, in 2006, Higgins and Rodriguez's event study failed to prove the positive relationship between availability of free cashflow and abnormal post acquisition returns.

Jensen and Meckling in 1983, pointed out that availability of free cash flows is a cause of increased agency conflict between the managers who act as agents for the shareholders, who hold principal position in a company. In the absence of an efficient corporate governance system in place, agency conflict arises where excess cash available after vesting all investments with viable returns or positive net present value, causes a conflict of interest between the managers and shareholders.

Shareholders may demand a dividend payout while managers would want to keep the cashflow within the company for their personal benefits and bonuses, end up investing then in unsound acquisition activities yielding low or no viable returns or growth prospects. Hence under absence of a good control system, free cash flows ultimately lead to investment in non-profitable M&A activities.

L. Oxelheim (2011) provided few cases of evidences of Daimler Benz in Alabama, BMW in South Carolina, Hyundai in Oregon and Disney in France where increase in available free cash is an outcome of overseas investment via negotiation of financial subsidies and reduced taxation, which brings us to a conclusion that dearth of free cash flows would motivate a firm to enter into such transactions.

*Hypothesis 2: Pre-acquisition free cash flow of an Indian company (acquirer) and its post-acquisition performance are negatively related.*

### **Age**

Number of years of being in operation does not only signify the age of any firm but reflects largely upon accumulated knowledge, experience and assets during its tenure of existence, hence some perceive this 'length of operation' as a firm's monopolistic advantage. While many researchers consider experience or knowledge as a positive pre-requisite

for a successful M&A transaction, as a firm learns from its own historical experiences, thus bringing in more flexibility, strategic planning and better embedded control structure (Cyert & March, 2001; Hitt et al., 1998; Jemison & Sitkin, 1986; Han, 2002; Pugh, 1969; Fowler & Schmidt, 1989). Thus, proposing a positive association between organizational age and post-acquisition performance.

But another school of thought is that higher age acts as a deterrent for international expansion. Complacency binds the managerial staff who become well versed and comfortable with working within the domestic borders, thus making them hesitant towards foreign expansion. Marshall in 1920 stated in his study that young firms are devoid of bureaucratic practices and far from the state of inaction, making them more responsive and dynamic in their approach in dealing with the continuously changing competitive business environments. This result was further confirmed by researches of Duflos & Pfister (2008), Lin et. al. (2010) and Higgins and Rodriguez (2006).

*Hypothesis 3: Age of an acquiring Indian company and its post-acquisition performance are positively related.*

### Public Ownership

Ownership structure is a critical aspect of a firm's activity and its performance overall (M.Kroll et. al., 1997). A company whose ownership is indicated by stocks listed on a public stock exchange for being held by or traded among individuals, or institutional shareholders, represents a public ownership structure of a company.

Initial Public Offering (IPO) generally provides a public company with a good appetite to enter into sound M&A transactions. Public ownership can also be viewed as a platform to expand its global presence as most stock markets are open for foreign investors as well. U. Celikyurt et.al. (2010) demonstrated in their research that making acquisitions is the primary motive of firms to go public, thus stating "...newly public companies make acquisitions at a torrid pace...".

Also, George J Papaioannou et. al. (2012) specified that going public yields a number of value related paybacks to a firm, namely lower cost of capital and greater risk sharing, better financial flexibility as compared to private firms, thus enabling firms to capitalize on growth and expansion opportunities available.

*Hypothesis 4: Public ownership status of an acquirer (Indian company) is positively related to its post-acquisition performance.*

## II. Research Design and Methods

Our study focuses on developing an understanding of the impact of aforementioned determinants on performance of Indian firms indulged in cross border outbound M&A activities. For relevance we take the recent data of all Indian buyer companies who have entered into complete M&A deals with companies established outside Indian territory during the period April 2015 to March 2019. EMIS database has been used in this study for accessing the details of the Indian companies which were focused in this paper.

During these 4 years, a total of 221 Indian companies acquired foreign companies, but our sample size eventually come down to 114 Indian firms. Removal of 107 companies from our sample was based on the following criteria checklist: -

- If Indian company has made more than one acquisition in a single year, then instead of their multiple records, only latest acquisition will be included in the sample
- Companies whose data information is missing, will be omitted from the sample.

Variables:

- a) In this paper increase in return on assets (ROA) has been used as a dependent variable to measure the construct of post M&A activity performance of Indian companies. Here ROA was used over stock price to measure the post M&A performance of Indian companies, as stock prices are highly volatile, hence do not qualify as a good indicator for measuring individual company performance for this study, perhaps they fit better for event analysis. The performance is measured by increase in annual ROA from the year in which deal took place until next year.

Post – Acquisition Performance:

$$ROA_{\Delta} = \frac{ROA_{n+1} - ROA_n}{ROA_n}$$

where,

$ROA_{\Delta}$  = Increase in ROA post acquisition

$ROA_n$  = ROA of the year in which the deal took place

$ROA_{n+1}$  = ROA of the (n+1)<sup>th</sup> year

- b) Pre-acquisition performance has been measured by ratio of net income or net profit of the Indian company for the year in which the deal took place and of the year previous to the one in which the deal took place. In most of the extant literature related to pre-acquisition performance of a firm, Tobin q has been taken as a measure of the same to draw conclusive results. Tobin q is the ratio of market value of a company divided by its replacement cost. But as stock market and market value of a company are subject to more manipulation



along with policy changes in the environment, hence we use accounting measure i.e. net income instead of stock market measure.

Pre – Acquisition Performance:

$$NP_{\Delta} = \frac{NP_n}{NP_{n-1}}$$

where,

$NP_{\Delta}$  = Measure of pre-acquisition NP

$NP_n$  = NP of the year in which the deal took place

$NP_{n-1}$  = NP of the (n-1)<sup>th</sup> year

- c) Free cash flow has been measured by using the ratio of net cash available in the company at the end of the year in which the deal took place and the total capital of the company is in the same year (this has been done to control the scale).

Cash Flow:

$$CF = \frac{NCF_n}{TC_n}$$

where,

CF = Ratio of cash available to total capital

$NCF_n$  = Net cash available at the end of the year (n) in which the deal took place

$TC_n$  = Total capital at the end of the n<sup>th</sup> year.

- d) Organizational age has been measured in number of years between the establishment of the company and the year in which the deal took place.

Organizational Age:

$$AGE = n - i$$

where,

n = year in which the deal took place

i = establishment year

- e) Listing status have been measured using a categorical variable "1" belongs to Indian companies who are listed on any stock exchange and "0" belongs to Indian companies who aren't listed on any stock exchange yet.

#### Econometric Model:

To test the aforesaid hypothesis, we will use multivariable linear regression model:

$$ROA_{\Delta} = \alpha + \beta_1 NP_{\Delta} + \beta_2 CF + \beta_3 AGE + \beta_4 STATUS$$

Along with this we first check descriptive statistics of all the variables followed by testing the presence of multicollinearity (if any) among the independent variables then finally proceeding with multivariable linear regression and testing the fitness of the model via ANOVA statistics.

The above analysis has been done using the Salesforce IBM SPSS statistics.

### III. Results and Discussion

#### Descriptive Statistics

The results of descriptive statistics of the sample are quoted in table I. Our complete dataset comprises of 116 Indian companies who have entered in outward cross-border M&A deals over a period of four years from April 2015 to March 2019. The descriptive statistics exhibits average increase in post-acquisition performance is -0.22 with a standard deviation of 1.47, while the average of pre-acquisition net income ratio is 1.80 with a standard deviation of 2.88 and the pre-acquisition ratio of cash flow to total capital has an average of 0.06 and standard deviation of 0.60. The mean age of companies in the sample is 34.28 years and majority of them are publicly listed on stock exchanges. (Table I)

**Table I: Descriptive Statistics**

I: Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Return	116	-10.4060	3.3230	-.220078	1.4786001
Income	116	.0000	26.2860	1.808526	2.8868971
Cash Flows	116	-.1290	6.4450	.068983	.6011247
Age	116	5.00	98.00	34.2845	21.86751
Status	116	0	1	.76	.430

**Table II: Model summary**

II: Model Summary					
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.351 <sup>a</sup>	.123	.092		1.4091269

a. Predictors: (Constant), Status, Cash Flows, Income, Age

**Table III: Anova**

III: ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.014	4	7.753	3.905	.005 <sup>b</sup>
	Residual	220.406	111	1.986		
	Total	251.420	115			

a. Dependent Variable: Return  
b. Predictors: (Constant), Status, Cash Flows, Income, Age

#### Multi-collinearity Statistics

Before proceeding with the multi-variable linear regression, we need to check whether independent variables are free from the issue of multi-collinearity among them. For checking this we create a multiple correlation matrix depicted in table VI. Here all correlation statistics are less than 0.8, hence making the data

free from multi-collinearity. This is further confirmed by variance inflation factor (VIF) as indicated in table IV i.e. the coefficient table. All VIF statistics are less than 3, further clarifying the absence of multi-collinearity in the dataset. (Table VI)

**Table IV: Coefficients**

Model		Coefficients <sup>a</sup>						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	<b>(Constant)</b>	-1.383	.344		-4.024	.000		
	<b>Income</b>	.036	.047	.070	.756	.451	.933	1.072
	<b>Cash Flows</b>	-.015	.219	-.006	-.068	.946	.995	1.005
	<b>Age</b>	.009	.006	.129	1.390	.167	.921	1.086
	<b>Status</b>	1.056	.325	.307	3.251	.002	.886	1.129

a. Dependent Variable: Return

**Table V: Collinearity Diagnostics**

Collinearity Diagnostics <sup>a</sup>								
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	Income	Cash Flows	Age	Status
1	1	2.982	1.000	.02	.03	.00	.02	.02
	2	.985	1.740	.00	.03	.96	.00	.00
	3	.736	2.012	.00	.73	.04	.03	.03
	4	.198	3.882	.02	.00	.00	.80	.41
	5	.099	5.491	.97	.21	.00	.15	.54

a. Dependent Variable: Return

**Table VI: Correlations**

Correlations					
		Income	Cash Flows	Age	Status
Income	<b>Pearson Correlation</b>	1	-.029	-.152	-.242**
	<b>Sig. (2-tailed)</b>		.755	.103	.009
	N	116	116	116	116
Cash Flows	<b>Pearson Correlation</b>	-.029	1	.047	.064
	<b>Sig. (2-tailed)</b>	.755		.620	.494
	N	116	116	116	116
Age	<b>Pearson Correlation</b>	-.152	.047	1	.266**
	<b>Sig. (2-tailed)</b>	.103	.620		.004
	N	116	116	116	116
Status	<b>Pearson Correlation</b>	-.242**	.064	.266**	1
	<b>Sig. (2-tailed)</b>	.009	.494	.004	
	N	116	116	116	116

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

## Regression Statistics

The final results of multi- variable linear regression are exhibited in table IV. The results indicate that the pre-acquisition income ratio is positively related to increase in post-acquisition ROA, however the p value being greater than 0.05, makes this determinant statistically insignificant, thus failing to reject our null hypotheses.

The unstandardized beta coefficient of ratio of pre-acquisition cashflows to total capital is negative and statistically insignificant, thus we fail to accept our alternate hypotheses regarding the same. The coefficient of age has also come out to be positive and insignificant with a p value of 0.167. While listing status' p value is 0.002, which is statistically significant at one percent level, with an unstandardized beta value of 1.056, thus we fail to accept our null hypotheses here. (Table IV)

## IV. Conclusion

In this paper we took a unique dataset of acquirer Indian firms who entered into cross border M&A deals, and researched about the impact of certain factors on post-acquisition performance of this set of firms. We delve deeper into few determinants namely pre-acquisition performance of the firm, free cash flows and organization's chronological age and public ownership status, analyzing their impact on the M&A activity of the acquirer Indian firms

The research points out towards the importance of public ownership or listing status along with having a positive influence on making the outbound M&A decision a fruitful one for the acquirer Indian firm. While pre-acquisition performance, free cash flows and organization's age has no statistically significant effect on post-acquisition performance of the acquirer firm.

This research endeavors to fill research gaps concerning the increasing number of transaction value and volume of cross border M&A transactions by Indian firms during the past decade, contributing to international business extant literature along with generating some valuable policy implications.

This research has made evident to the Indian government policy makers as well as the top management of the Indian companies that going forward with acquisitions, one cannot negate the importance of public ownership. Being listed on a public stock exchange will definitely expedite the success of entering into an acquisition decision by the Indian firm. The policy regulators of stock market should definitely try and loosen or make easy for firms to make an IPO, thus giving them wings to go ahead with fruitful acquisition expansion avenues, which will ultimately help the Indian economy grow.

Companies' top managements also should strategize the aspect of going public, which can yield numerous benefits to the stakeholders of the company.

Limitations of this study includes the size of dataset; our current dataset consists of 114 acquirer Indian firms which could have been increased by extending the span of years to ten. Also, industrial effect could be controlled in this research to yield more precise results, as few industries are more active and open for outbound M&A than other. Along with incorporating these details, future research scope also includes performing a research study on deals host country wise.

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# CASHLESS ECONOMY: A PARADIGM SHIFT

**Meenu Goel\* Himanshi Garg\*\* Megha Sharma\*\*\* Shiv Narain\*\*\*\***

**Purpose:** The purpose of this research paper is to provide an understanding of the beliefs of people reckoning the cashless transactions.

**Design/Methodology/Approach:** The analysis is done using the Chi-Square Goodness of fit test.

**Findings:** People are reluctant towards shifting to a completely cashless economy because of increasing hacker activities, rising privacy concerns, etc.

**Originality/value:** This study has been able to provide a clear scenario of people's thought process regarding cashless economy.

**Keywords:** Cashless Economy, Demonetization, Digitalization, Financial Transactions, Digital Technologies.

**JEL Classification Code:** C8 and O3

India is striving to move towards cashless transactions with the motive of reducing the use of physical cash in the economy. The transformation into a cashless economy and digitalization is an international priority, most of the countries have already turned into a cashless economy. After the demonetization initiative taken by the government on November 8<sup>th</sup>, 2016, i.e. when 500 and 1000 notes were no longer legal tender, people started making multiple electronic transactions. The main motive of this initiative was to reduce the black economy and end the use of counterfeit currency and illegal funds to fund illegal activities and terrorism. India is aiming to move from cash dominant economy to a cashless economy by using digital technologies for transactions namely mobile wallets and digital money. It aims to remove the traditional barriers for millions of Indians to achieve financial inclusion, and to provide affordable, secure, and convenient financial services to cities, suburbs, and rural areas across the country. The latest advancements in mobile technologies have unlocked several opportunities for people who do not operate with financial institutions but have access to financial services. Paytm provides access to financial services without linking your account to any bank. India is growing in terms of online transactions as people have started to trust the security of their money in several applications installed, by a simple tap of fingers on the phone screen, people of any age can transfer or transact money. The security and safety that many applications with their online services provided have led us to believe that the cashless society is closely within our reach. Although, most people tend to hesitate using the online mode of transactions due to the fear of fraud or robbery. There is a slow but steady change which is surprising to watch how citizens are quickly adapting to the transformation of online payment methods through electronic media. Nevertheless, a cashless economy does not mean the complete disappearance of physical cash but the payments/transactions that are made through electronic applications or in other words, if payments/transactions are made digitally, it is a way towards secure, affordable, convenient, and comfortable gateway of successful usage of electronic applications and a one step ahead in the development of the country.

## Objectives of the study:

- To know what are the main reasons why respondents hesitate while going for cashless transactions.
- To know what are the main benefits respondents think of cashless transactions.
- To know how safe do respondents feel with cash payments and cashless transactions.
- To know what are the main amenities respondents pay for while online transactions.
- To know if there is any difference in the amount respondents pay in cash payments and e-payments.

## Hypothesis of the study:

- H<sub>0</sub> = There exist no dominant benefit respondents think towards cashless transactions.
- H<sub>0</sub> = There is no difference in level of security respondents feel while cash payments and cashless transactions.
- H<sub>0</sub> = There is no relation between no. of bank accounts of respondents and their preferred mode of payments.
- H<sub>0</sub> = There is no difference between amount respondents pay in cash and e-payments.

## Digitalization

Digitalization is the process of converting data through digital services or accepting the services digitally. Digitalization in India is a movement of the Indian Government that was launched on July 2<sup>nd</sup>, 2015 by Prime Minister. This plan ensure that citizens can access the government services electronically by improving network

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infrastructure and expanding internet connections and empowering the country through digital technology. The initiative includes plans to connect rural areas with high-speed internet connections. As a result of this initiative the result of technology and advancements has changed people's lives and is making the society stronger in many ways.

The Digital India Make is an Indian government project whose dream is to transform India into an informative economy and a digitally empowered society, providing citizens with healthy governance, organize and coordinate public accountability, and connect and provide plans and government digitally services to improve mobilization capabilities of information technologies of various ministries. The vision of this plan additionally aims at inclusive growth in areas of digital services, products, manufacturing employment opportunities etc.

There are multiple challenges faced while implementing this plan: firstly, there is a lack of Digital Literacy among the people as this illiteracy is mostly among the people who reside in the rural areas but they have adapted this to a certain level of extent only. Low digital literacy is the main obstacle to technological adaptation. The most important and the biggest factor that affects this initiative is the Connectivity factor as ensuring communication with all the villages and towns without exception is a major task. Fear of cybercrime and data leakage hinders the adoption of digitalization. Data security is very important, and data vulnerabilities are major problem, especially in financial transactions.

There are several obstacles to successful implementation, such as illiteracy, weak infrastructure, cybercrime, the rigid mind-set people have, proper policy formulation, lack of coordination between the departments, and low internet speed.

#### **Role of digitalization in banking sector:**

Digitalization is not the choice of the banking industry, it is more predictable because every industry is digital and the banking industry is no exception.

- Mobile Banking
- Automated Teller Machine (ATM)
- Debit Card
- Internet Banking

#### **Advantages of digitalization in banking:**

- It reduces human error.
- Automation eliminates duplicate orders.
- Technology does not discriminate; the banks will treat everyone equally.

#### **Disadvantages of digitalization in banking:**

- With the increase in cybercrime and other types of theft, banks have become more vulnerable to cyber-attacks. There is a lack of digital awareness and cybercrime awareness.

- Most of the Indian population is digitally illiterate, so they are not familiar with the digitalization of banks.

#### **Economic impact of digitalization of rural area:**

**Increase in Employment opportunities:** The first and the most important benefit of digitalization is to increase employment opportunities in rural areas. Many small businesses are able to find a platform to promote their business through internet access.

**Improvement in living quality:** The quality of living can be improved by people's increasing income. The smooth flow of income can increase a standard of living of an individual. Many people are benefitted from these services.

**Flow of News and information:** While using the internet the people are able to get the information regarding any updates within seconds.

It is important for us to understand that digitalization not only benefits the economy by doing various transactions online but it also spreads awareness among people regarding the updates of any kind of information.

## **I. Review of Literature**

Literature at the cashless regulations is alternatively scarce, but these days the subject has caught the eyes of the people and has gained extra interest each by relevant banks and educational researchers. Electronic payments have a tremendous range of financial advantages aside from their comfort and safety. The Government is running at numerous tiers to lessen the dependence on cash. Review of Literature paves the way for a thorough understanding of areas of the analysis which are already undertaken and highlights the potential study yet to be discussed. A Cashless economy does not define the complete absence of cash but it is an economic setting where goods and services are bought with the help of electronic/ digital media and applications.

Memdani (2012) focuses on steps towards digitalization of rural India and its economic impact. An increase in employment opportunities, Improvement in standard of living, reduction in risks are the most important points which have to be taken into consideration if we want to achieve digitalization in Rural India. Garg and Panchal (2017) discussed on Introduction of Cashless Economy in India 2016 and examined that one of the biggest problems faced by the working of cashless economy is cybercrimes which can lead to illegal access to primary data. This issue can be solved through various measures such as increasing Internet Security and licensing of payment banks. Kumar et. al. (2017) initiated a serious discussion as many investors were looking forward to India becoming a digital economy, many are now walking away from the country due to concerns of becoming a digital colony of global businesses like Amazon.

According to Thomas and Krishnamurthi (2017) there is a great capability that the rural economic system in India can become a cashless economic system. If one takes a step ahead and moves towards cashless transactions while receiving the benefits soon the rest of the village will follow. Shirley (2017) examines the impact of demonetization on Indian economy as people not only hold black money in form of cash but rather, they keep black money in form of Land, buildings, gold or it kept abroad. M Nirmala and P. Pavithra (2018) aims at every concept of Digitalization in Banking Technology as it examines the Indian public sector banking with the role and utility in IT (Information Technology). Digitalization has remodeled the lives of people and has put various things at an ease for many people. Digital banking is the preferred doorstep service among account holders as it saves them time and helps them save money. However, it is not available for the illiterates as they are not financially sound to acquire such facilities. Singhraul and Garwal (2018) discussed about the challenges and the opportunities that Indians face in Cashless economy, New full proved financial policies, no hidden charges, safe and secure transactions, administrative control, clear transaction statements, etc are majorly required. Srivastava (2018) Studied that it is more important for people to get educated so that they take initiatives, come forward, and participates to make the digital India project a great success. We should all be mentally prepared for the change and be ready to face the challenges that come with it. Rudresha (2019) concludes that the cashless transaction economy is very beneficial for the country. It helps in fighting against various evils such as terrorism, corruption, and money laundering. Susmi et. al. (2019) identified the factors that influence the continuous use of mobile wallets are presented in the study. The study also revealed that system quality and perceived usefulness had a positive impact on the security of mobile wallets and the perceived usefulness of mobile wallets. The study aims to examine the quality of the mobile wallet users' intention to continue using the platform. It also contributes to the literature by providing empirical evidence. The study aims to study the quality of the mobile wallet users' intention to continue using the platform. It also contributes to the literature by providing empirical evidence. Hasan et. al. (2020) pointed out the challenges that Indians face with the movement towards a cashless economy. This study also suggests that schemes marketing tools should be applied so that these schemes launched by the government is fruitful to us. Online transactions should be cheap by eliminating extra charges taken so that more and more citizens are attracted to them. The Digitalisation of traditional payment methods is a modern improvement of banking industries, internet offerings, and cellular industries. Digital payment methods give people more financial independence. It may also give rise to new employment opportunities, new development of industries may result in an increase in per capita income, improve the quality of life of the people, the opportunity to establish new technologies and develop globally. The economic transactions of India are 98% done in cash, 26% of

people have access to the internet, and 200 million people make payments digitally.

## II. Research Design and Methods

This study is conducted to obtain primary data on Cashless Economy. We have gathered information from 413 respondents through Google forms. The main purpose of this study is to analyze from the primary data. This research is powerful in obtaining the quality answers of the respondents and it also seeks to understand this topic from the local population point of view. Some information was gathered from published literature. Some secondary data has been used in this research from various sources viz: Journals, Articles, Research Data and Websites Information.

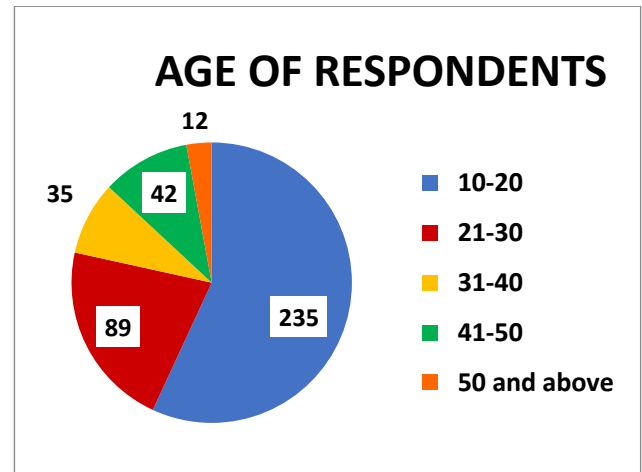
### Data analysis

There exists no relation between age of respondents and their willingness to shift to cashless transactions.

### Variable used and their understanding

We have data of 413 respondents and in this hypothesis testing we considered the factors of analysis as respondent's age and their willingness to shift to a cashless economy.

The responses from survey are from various age groups which can be seen in the following graph:



Through this graph, we know that we have a range of responses from age of 10 - 20 years to above 50 years. Though, the age group with maximum responses is 10-20 years.

Now, taking the factor of willingness toward shift to cashless transaction we asked respondents:

Are you willing to switch to cashless transactions? \*

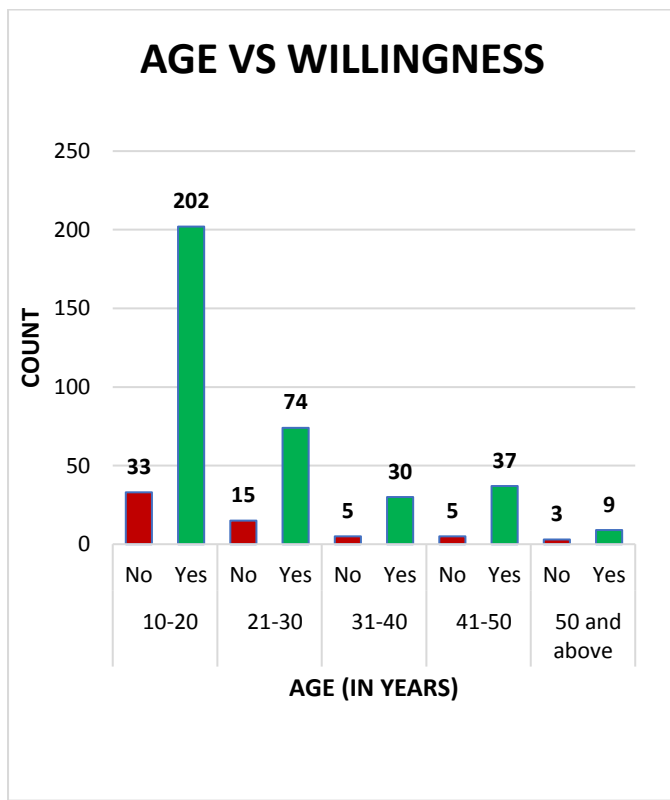
Yes

No

From this question we get a dichotomous data. In a dichotomous data, we get output only in two ways i.e., in the above case also we can get response as either “yes, respondent is willing to shift to a cashless economy” or “No, respondent is not willing to shift to a cashless economy.

The frequency table for this is given as:

Responses	# People willing to switch towards cashless transactions?
No	61
Yes	352



From above diagram we can understand the division of the responses into the two categories of “No” and “Yes” of the willingness factor.

### Test used

Since, this is a dichotomous data we will use chi-square test for finding relation between the two factors i.e., respondent’s age and willingness toward shift to cashless economy. We performed the test in SPSS.

### Analysis

**Table 1: Age\*Willingness Cross Tabulation**

Age \* Willingness Crosstabulation

		Willingness		Total	
		No	Yes		
Age	10-20	Count	33	202	235
		% within Age	14.0%	86.0%	100.0%
		% within Willingness	54.1%	57.4%	56.9%
		% of Total	8.0%	48.9%	56.9%
21-30	Count	15	74	89	
	% within Age	16.9%	83.1%	100.0%	
	% within Willingness	24.6%	21.0%	21.5%	
	% of Total	3.6%	17.9%	21.5%	
31-40	Count	5	30	35	
	% within Age	14.3%	85.7%	100.0%	
	% within Willingness	8.2%	8.5%	8.5%	
	% of Total	1.2%	7.3%	8.5%	
41-50	Count	5	37	42	
	% within Age	11.9%	88.1%	100.0%	
	% within Willingness	8.2%	10.5%	10.2%	
	% of Total	1.2%	9.0%	10.2%	
50 an	Count	3	9	12	
	% within Age	25.0%	75.0%	100.0%	
	% within Willingness	4.9%	2.6%	2.9%	
	% of Total	.7%	2.2%	2.9%	
Total	Count	61	352	413	
	% within Age	14.8%	85.2%	100.0%	
	% within Willingness	100.0%	100.0%	100.0%	
	% of Total	14.8%	85.2%	100.0%	

**Table 2  
Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.684 <sup>a</sup>	4	.794
Likelihood Ratio	1.549	4	.818
N of Valid Cases	413		

a. 1 cells (10.0%) have expected count less than 5. The minimum expected count is 1.77.

**Table 3  
Symmetric Measures**

		Value	Approx. Sig.
Nominal by Nominal	Phi	.064	.794
	Cramer's V	.064	.794
N of Valid Cases		413	

### Interpretation

From table 1, we get to know that out of 413 respondents 352 responses are in the support towards cashless economy, which is 85.2% of the total responses. Hence, we see that respondents have a positive attitude towards shifting to a cashless economy.

From table 2, we are only interested in the result of the Pearson’s chi-square row. We can see here that value = 1.684



and  $\rho = 0.794$ . This tells us that there is no statistically significant relation between the age of the respondents and their willingness towards shifting to a cashless economy.

From table 3, we get values of Phi and Cramer's V = 0.64. Phi and Cramer's V are both tests of the strength of association. We can see that the strength of association between the tested variables i.e., Age of respondents and their willingness towards shift to cashless economy is very weak. There is no difference in level of security respondents feel while cash payments and cashless transactions.

### Variable used and their understanding

For this analysis, we asked the respondents the following questions:

How safe do you feel while paying with cash? \*

1 2 3 4 5

Very unsafe ○ ○ ○ ○ ○ Very safe

How safe do you feel while paying online? \*

1 2 3 4 5

Very unsafe ○ ○ ○ ○ ○ Very safe

From this we scaled the security of payments through cash and through online transactions where on a scale from 1 to 5, 1 being most unsafe and 5 being very safe we get ordinal data. On considering set of these questions, we also get the following diagram:

Figure: 1

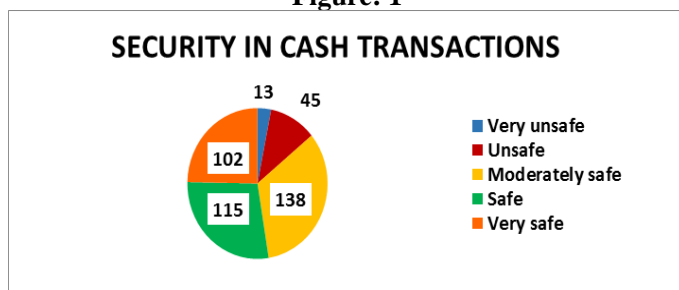
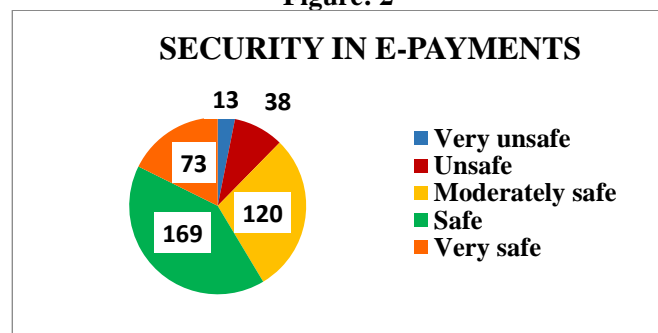


Figure: 2



From figure 1 we get that the maximum number of respondents are considering cash transactions as “moderately safe”, that is in numbers, out of 413 respondents 138, that is, 33% have this sense of security. From figure 2 we can get

that out of 413 respondents we have 169 i.e., 41% which feel “safe” while an e-payment.

### Test used

For the following analysis we will use the Wilcoxon sign test. For a Wilcoxon sign test, we work with ordinal data. In the variables we have used we clearly see ranks created on the basis of security people feel while cash payment or e-payment.

### Analysis

Table 4:  
Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Cash	413	3.60	1.069	1	5
Cashless	413	3.61	.983	1	5

Table 5:  
Ranks

	N	Mean Rank	Sum of Ranks
Cashless - Cash			
Negative Ranks	131 <sup>a</sup>	132.03	17296.50
Positive Ranks	132 <sup>b</sup>	131.97	17419.50
Ties	150 <sup>c</sup>		
Total	413		

- a. Cashless < Cash
- b. Cashless > Cash
- c. Cashless = Cash

Table 6:  
Test Statistics<sup>b</sup>

	Cashless - Cash
Z	-.051 <sup>a</sup>
Asymp. Sig. (2-tailed)	.959

a. Based on negative ranks.

b. Wilcoxon Signed Ranks Test

### Interpretation

From table 4, we get descriptive measures of the data.

From table 5, we have all statistics that are required to calculate the Wilcoxon signed ranks test's W. These are the sample size and the sum of ranks.

From table 6, we get the values we will use for the testing i.e., p-value = 0.959 and value of z = -0.051. From p-value we conclude there is no significant difference between the sense of security people feel during a cash payment and while e-payment.

Hence, people feel equally safe or equally unsafe in cash and cashless economy. There are no dominant apps respondents use while online transactions.

### Variable used and their understanding

For this problem we asked respondents the following question:

What are the apps you use for payments? \*

- Google pay
- Paytm
- PhonePe
- BHIM
- Mobikwik
- Amazon pay
- None
- Other...

Through this we get to know about the most use apps for e-payments.

Table 7:

Apps	Frequency (Observed)
Amazon pay	64
BHIM	60
Google pay	209
Paytm	254
PhonePe	116
Other...	20

The above table gives us frequency distribution for different apps.

### Test used

For finding if there is no dominant app which is used by respondents, we use goodness of fit test. In this test we compare the observed frequency with the expected frequency which here we take as mean. For finding which app is dominant we will use a simple bar graph.

### Analysis

Firstly, for applying chi-square goodness of fit test, we take means and apply the following formula for calculation.

$$\text{Test Statistic } \chi^2 = \sum \frac{(O_i - E_i)^2}{(E_i)}$$

Table 8:

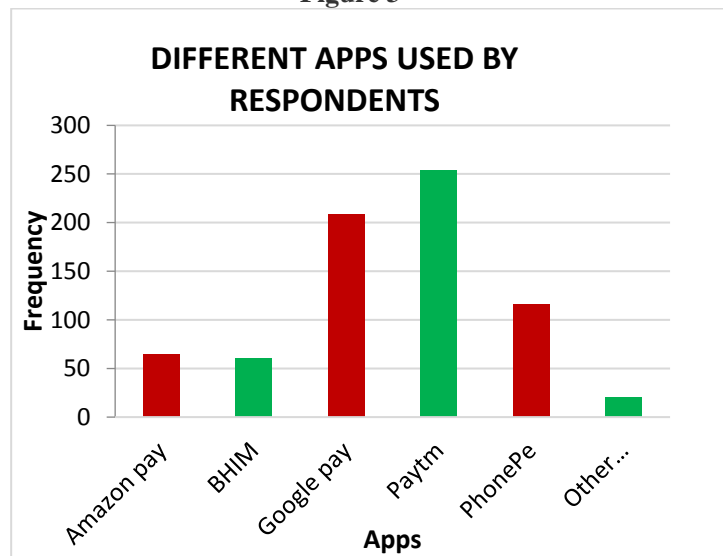
Apps	Observed Frequency (O)	Expected Frequency (E)	$\frac{(O_i - E_i)^2}{E_i}$
Amazon pay	64	120.5	26.49170124
BHIM	60	120.5	30.37551867

Google pay	209	120.5	64.99792531
Paytm	254	120.5	147.9024896
PhonePe	116	120.5	0.168049793
Other...	20	120.5	83.81950207
			353.7551867

This above tables gives us the calculated value for the  $\chi^2$  i.e., 353.75519.

Now for 5 degrees of freedom, we reject the hypothesis that there are no dominating apps. For finding most used apps we plot a bar graph for the above data as:

Figure 3



### Interpretation

On applying chi-square goodness of fit, we see that there are few apps which are used more than other apps. So, on plotting a bar graph as shown above we get Google pay and Paytm as most used apps followed by PhonePe, Amazon Pay and BHIM.

There is no dominant reason behind hesitation towards cashless economy.

### Variables used and their understanding

For this problem we asked respondents the following question:

What worries you to switch into a cashless economy? \*

- Security of apps
- Internet connections
- Loss of cards/mobile
- Hackers activity
- Lack of technology knowlegde
- Other: \_\_\_\_\_

Through this we get to know about the most common reason that worries people while switching to cashless economy:

**Table 9:**

Reasons	Frequency
Hackers activity	314
Internet connections	164
Lack of technical knowledge	81
Loss of cards/mobile	138
Security of apps	265
None	3

The above table gives us the frequency distribution for the different reasons.

### Test used

For finding if there is no dominant reason that respondents are worried about while switching to cashless economy, we use goodness of fit test. In this test we compare the observed frequency with the expected frequency which here we take as mean. For finding which reason is dominant we will use simple bar graph.

### III. Results and Discussion

Firstly, for applying chi-square goodness of fit test, we take means and apply the following formula for calculation:

$$\text{Test Statistics } \chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

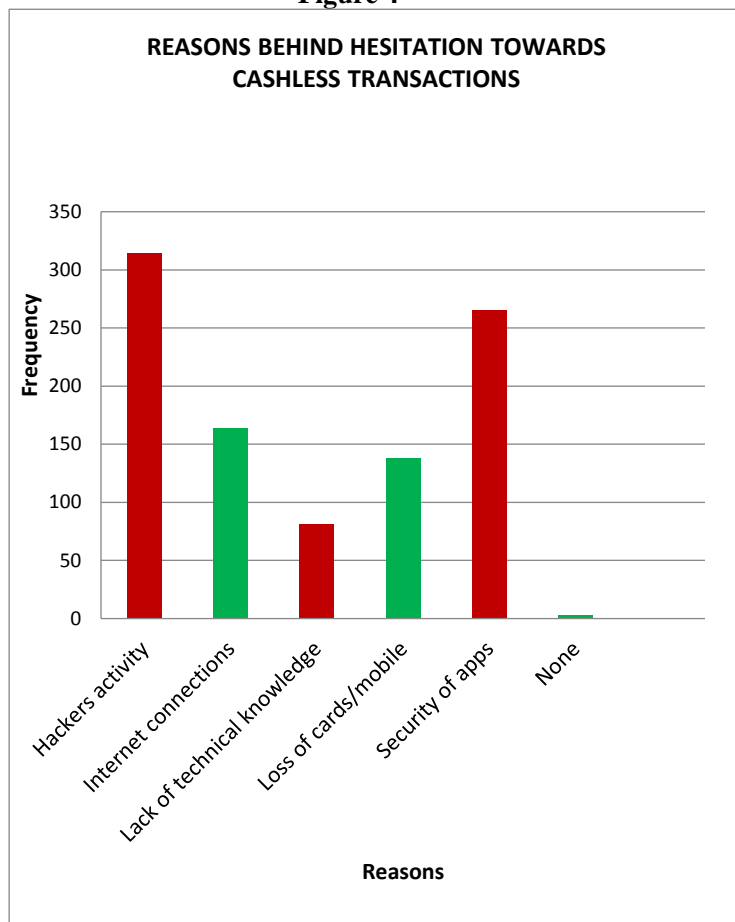
**Table 10:**

Reasons	Observed Frequency (O)	Expected Frequency (E)	$\frac{(O_i - E_i)^2}{E_i}$
Hackers activity	314	160.8333333	145.8655
Internet connections	164	160.8333333	0.062349
Lack of technical knowledge	81	160.8333333	39.62712
Loss of cards/mobile	138	160.8333333	3.241623
Security of apps	265	160.8333333	67.46546
None	3	160.8333333	154.8893
	<b>965</b>	<b>965</b>	<b>411.1513</b>

This above table gives us the calculated value for the  $\chi^2$  i.e. 411.1513

Now, for 5 degrees of freedom, we reject the hypothesis that there is no dominant reason. For finding the most common reason we plot a simple bar graph of the above data:

**Figure 4**



### Interpretation:

On applying chi-square goodness of fit test, we see that there are few reasons which are more common. So, on plotting the graph we as shown above we get Hacker's activity and Security of apps as most common reason followed by Internet connections, Lack of technical knowledge and Loss of cards/mobile.

There is no dominant benefit respondents think towards cashless economy.

### Variables used and their understanding:

For this problem we asked respondents the following question:

What do you think are benefits of cashless economy? \*

- Reduction in cash related robbery
- Reduction in cash related corruption (i.e. black money)
- Increase in employment
- Attract more foreign investment
- More tax collection
- Other: \_\_\_\_\_

Through this we get to know about the most common benefit of cashless economy:

**Table 11:**

Benefits	Frequency
Attract more foreign investment	88
Convenience	7
Increase in employment	80
More tax collection	130
Reduction in govt expenditure on circular economy	1
Reduction in cash related corruption (i.e. black money)	268
Reduction in cash related robbery	300
None	2

The above table gives us the frequency distribution for the different benefits.

### Test used

For finding if there is no dominant benefit that respondents think towards cashless economy, we use goodness of fit test. In this test, we compare the observed frequency with the expected frequency, which here we take as mean. For finding which benefit is dominant, we will use simple bar graph.

### Analysis

Firstly, for applying chi-square goodness of fit test, we take means and apply the following formula for calculation:

$$\text{Test Statistics, } \chi^2 = \sum \frac{(O_i - E_i)^2}{(E_i)}$$

**Table 12:**

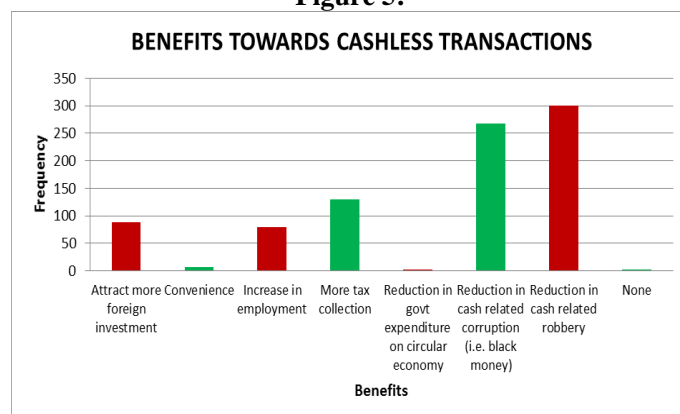
Benefits	Observed Frequency (O)	Expected Frequency (E)	(O-E) <sup>2</sup> /E
Attract more foreign investment	88	109.5	4.221461187
Convenience	7	109.5	95.94748858
Increase in employment	80	109.5	7.947488584
More tax collection	130	109.5	3.837899543
Reduction in govt expenditure on circular economy	1	109.5	107.5091324
Reduction in cash related corruption (i.e. black money)	268	109.5	229.4269406

<b>Reduction in cash related robbery</b>	300	109.5	331.4178082
<b>None</b>	2	109.5	105.5365297
	<b>876</b>	<b>876</b>	<b>885.8447489</b>

This above table gives us the calculated value for the  $\chi^2$  i.e., 885.84475. Now, for 7 d.f. we reject the hypothesis that there is no dominant benefit.

For finding the most common benefit we plot a simple bar graph of the above data:

**Figure 5:**



### Interpretation

On applying chi-square goodness of fit test, we see that there are few benefits which are more common. So, on plotting the graph we as shown above we get Reduction in cash related robbery and Reduction in cash related corruption (i.e. black money) as most common reason followed by More tax collection, Attract more foreign investment, Increase in employment and Convenience.

## IV. Conclusion

In light of the research study conducted by us and from the gathered information we can find out that out of 413 respondents 352 are in support of the cashless economy. The maximum respondents are willing to shift towards a cashless economy i.e. 85.2% of the total responses. When asked by the respondents how safe do they feel while paying online and while paying with cash, the maximum number of respondents are considering cash transactions as “moderately safe” which is out of 413 respondents 138 i.e. 33% have this sense of security and out 413 respondents 169 i.e. 41% feel “safe” while making online payments. Through this analysis, we can get a clear statement regarding the majority of the respondents who feel a sense of security. The majority of the respondents are using Paytm and Google Pay followed by PhonePe, Amazon pay and BHIM. While making online payments and transactions people often fear and worry about being hackers activities and the security of apps. The main and the most important benefit of cashless economy is the

reduction in cash-related robbery and reduction in cash-related corruption i.e. cleaning of black money. The maximum number of people are concerned about the security and privacy issues, Lack of infrastructure is also a challenge concerning one-third of the population. Lack of knowledge and education regarding the cashless economy is one of the challenges faced by Indians. Online transactions incur extra charges of making payments i.e. taking some percent from the actual amount which general consumers are most concerned about. The benefit of the cashless economy is the decrease in cash-related robbery and fall in cash-related corruption i.e. black money these are the most common reasons and the most major reasons followed by More tax collection, Attract more foreign investment, increase in employment and convenience. With the growing usage of smartphones and the banking industries rapidly adapting the technologies, it indeed has reduced a lot of human errors and has increased convenience. But at the same time, there are various cybercrime threats on the rise. Therefore, these sectors need to be guarded and be prepared for such crimes. On the other hand, Digitalization in rural India gives a very rosy picture. But it can be said that Indian farmers are no longer traditional or illiterate slowly but steadily they are getting familiar with the technology.

#### **Limitations of the study**

As this primary data was collected over the Google Forms, we could not collect the data from large number of people. We could not connect with the people who does not have access to either internet or who are only familiar to simple phones.

#### **Recommendations**

The cashless economy is a very important and clear economic structure that curbs black money. This structure will also help combat cash-borne terrorism in the country. The cashless economy cannot be achieved in a few days or months, it is a slow and tedious process.

**Conflict of Interest Statement:** Authors have no conflict of interest statement.

**Disclosure of Participation of Human/Animal:** This research involves active participation of human being and no animal is used.

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# MICROFINANCE INSTITUTIONS AND CREDIT PENETRATION: AN ANALYSIS ON ODISHA

**Kirti Ranjan Swain\* Aparajita Dash\*\***

**Purpose:** In recent times, the Indian microfinance industry is one of the fastest growing sectors for the development of Indian economy. Basically, the Microfinance Institutions (MFIs) are concentrated only in some specific regions of the country. Using data on MFI penetration and demographic, socioeconomic and historical determinants, this article examines possible explanations for the high concentration of MFIs in the state of Odisha, India.

**Design/methodology/approach:** The research paper tries to explain the level of penetration of microfinance in the states by using regression models.

**Findings:** Using OLS regressions, found that wealth has a positive and significant correlation to the presence of MFIs. Our analysis suggests that state-level macro factors are significant in explaining the geographical skew. MFIs in India have concentrated in states which are richer, have a good rural infrastructure.

**Originality/value:** The study provides an insight which would help in framing the necessary regulations to ensure that MFIs operate in all regions of the country.

**Keywords:** Microfinance, Microfinance Institution, Penetration Index, Micro variables, Human Capital

**JEL Classification:** G-20, G-21

Today, micro finance has become one of the most debated and documented but still much confused buzzwords in the present banking and policy making fields. In the most simplistic way, it can be termed as “banking for the poor”. It is often claimed to be a powerful economic development tool which can be used effectively to address poverty issues, empower the socially marginalized poor, strengthen the social fabric and empower the security related issues of the rural sector. In the present scenario micro financing is considered to be a more subaltern way of providing financial assistance to the less privileged ones.

## Micro Finance - Indian Context

The evolution of micro finance in India can be traced back to the year 1992 when NABARD set-up Self Help Group (SHG) - Bank Linkage programme (SBLP). This programme not only proved to be successful, but also emerged as the most popular model of Micro Finance in India. Several non-banking finance companies (NBFCs) and Residuary Non- Banking Companies (RNBCs) also started entering the Micro Finance sector, gradually recognizing the potential in the sector.

## I. Review of Literature

A few studies have identified a few elements that influence microfinance institutions' growth and sustainability. Tiwari, (2012) point out that the financial organisations require financial stability to run efficiently while Hoque et al. (2011) discussed microfinance institutions require to create funds by keeping in mind that their ultimate purpose is to save money for survival. Whereas Sangwan and Nayak (2020) discussed to become more efficient, microfinance organisations must reduce operating costs. Furthermore,

rising funding for microfinance organisations is challenging since investors are looking for specific returns. The above discussion exposed the significance of financial sustainability for the accomplishment of microfinance institutions.

Ishtiyaq & Mazhar (2019) discussed the significance of economic empowerment to bring psychological and social empowerment, and further bringing societal change at large. They advocate that significant psychological and social changes cannot be reflected through economic empowerment by MFIs and other factors also influence social and psychological empowerment. Malik (2018) has discussed in his research paper regarding collision of micro finance on poverty through experiential facts and find out that socio-economic profile of community completely depends upon the time factors. Sharif (2018) discussed micro-finance as a useful tool for socio-economic upliftment in a developing country and stated that it plays a significant role in poverty alleviation and development. Also point out that the action plan of MFIs in India is getting urban driven and it should give more focus towards rural driven. Sahoo (2013) reveals that, micro finance patrons are self employed, household-based entrepreneurs and low income persons.

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Micro entrepreneurs face many hurdles in getting started and a successful micro entrepreneur have contributed much to society by creating wealth, financial resources and occupations. Banerjee (2012) discussed a customary methodology in rural finance but the key problem is associated with rural finance market is nonattendance of modest technology in rural areas as well as commonness of false money lenders. Mr. Brij Mohan former Executive director, SIDBI, speaks about the future of micro credit in the agricultural sector in India. In his report, he concluded that micro finance institutes play an instrumental role in formulating the financial policies relating to the agricultural sectors. He suggested that micro finance institutes focused on credit policies to offer better services to farmers in rural India.

Shri Kshethra Dharmasthala Rural Development Project (SKDRDP) in South India is a perfect representation of the fundamental role a well-run microfinance association which meets the helpless man's energy needs. Micro credit works comprehensively through risk management and straightforwardly through the focused on organizations. Abhijit Banerjee in his research report discussed on micro credit operations and discussed the government and institution needs take initiatives to strengthen the operations in rural and urban areas to improve the income status of lower income people. Thorat (2005) in his study highlight that micro financing sector can enhance our understanding of the complex process of current regional development in India particularly at the spatial dimension and dynamics. Herwadkar & Ghosh (2013) explore that southern regional are difference from north eastern and central regions in respect of credit coverage. Senapati (2018) discussed that a moderate and considerable increase in production, coupled by a low level of crop instability, is preferable to a high increase in production and a high level of crop instability for the long-term development of agriculture in India. Singh et al. (2021) claimed that the microfinance institution is a dynamic way to improving lower-income groups' sources of income, which ultimately aids in poverty elimination. By encouraging impoverished women entrepreneurs, it also defines a path for small enterprises to run smoothly.

The study was also recognized that governing bodies to establish a system to ensure simple access to microfinance units' loan facilities as per need. Sohn & Ume (2019) made an analysis that monetary aid provided by microfinance units can only produce positive effects when it is accompanied by a sense of understanding about how to manage a business effectively. Uju Sussan (2018) point out that microfinance segments have been identified as playing a role in raising the standard of small-scale farmers by increasing their productivity. The research found that the assistance provided by microfinance institutions helps to a large extent in providing better access to agricultural markets, farming products, efficient labour, and appropriate

transportation facilities, which in turn increases the chances of small farm owners increasing their profitability.

### Objectives of the study

Objectives of the study are as -

- To explore the outreach of MFIs in the state of Odisha
- To construct a district - wise index of micro finance penetration in Odisha by MFIs vis-a-vis other banks
- To assess the socio - economic impact of such MFIs in the state.

## II. Research Design and Methods

The research study was conducted in the districts of Odisha, one of the states of India. The eastern region consists of 9 districts, the western region comprises the maximum number of districts i.e. 12, the northern region has 4 districts and the southern part has 5 districts. Summing up, there are 30 districts in the State of Odisha. Chi Square Test has been applied to verify the test of significance between NBFC - MFIs and financial inclusion in the state of Odisha at 5% level of significance and 1 degree of freedom.

### Research Hypotheses and Variables

The present paper is based on both primary and secondary sources. Data has been collected from various published reports, research articles, papers and circulars of SIDBI, NABARD, CRISIL, ICRA, CARE Ratings, RBI, Central and State Government web portals and other empirical research works. Micro Finance Institutions are expected to provide services to the unbanked and weaker sections of the society. Therefore, they should be operating in those states which are relatively poorer. The hypotheses tested along with the variables and expected outcomes are enumerated below:

HYPOTHESES AND VARIABLES			
Sl. No.	Hypotheses to be tested	Variables	Expected Outcome
1	MFIs' penetration would not serve as a tool for alleviating poverty in the states, which have better banking facilities	Districts and area-wise bank penetration	Negative
2	MFIs' penetration would definitely serve as a tool for alleviating poverty in the states which have comparatively better infrastructure.	District wise penetration of individual MFIs	Positive

Following are the null and alternate *hypotheses* considered for the research study:

**H0:** NBFC - MFIs do not serve as a tool for alleviating poverty in Odisha.

**H1:** NBFC - MFIs serve as a tool for alleviating poverty in Odisha.

### MFIs IN INDIA

Client outreach and loan portfolio are basically two key indicators of an MFI's contribution to financial inclusion as well as the breadth and depth of financial deepening achieved by it. MFIs currently operate in 29 states, 4 union territories and 588 districts in India. 25 MFIs with a large outreach and portfolio have operations in more than 5 states out of which 5 leading MFIs are operating in more than 15 states. As per the data, 62 MFIs (38%) are operating in 2 - 5 states, while 79 MFIs (48%) have confined their operations to only 1 state.

The details of states / union territories - wise operations of 165 MFIs are outlined in Table 1

**TABLE 1**

State / Union Territories - wise operations of MFIs in India	
Number of States / UTs	Number of MFIs
1	79
2 - 5	62
6 - 10	16
11 - 15	4
>15	5
<b>TOTAL</b>	<b>166</b>

Source: Bharat Micro Finance Report, 2017

### Loan Amount Disbursed by Banks

As represented in the figures below, the total amount of financing under SHG and JLG is Rs.209,823.13 lakhs as on 31<sup>st</sup> March, 2017 which is less as compared to the amount disbursed by Micro Finance Institutions. The huge difference between the loan amount disbursed by banks and MFIs may be due to small ticket size loan of MFIs. The loan disbursement of Public Sector, Private Sector, RRBs and Cooperative Banks is 103%, 32%, 99% and 53% as against the annual target set for FY 2016-17 at

Rs. 45,504.00 lakhs, Rs. 518.59 lakhs, Rs.38,905.10 lakhs, Rs. 10,070.00 lakhs respectively.

**TABLE 2**

(Rs. In Lakhs)

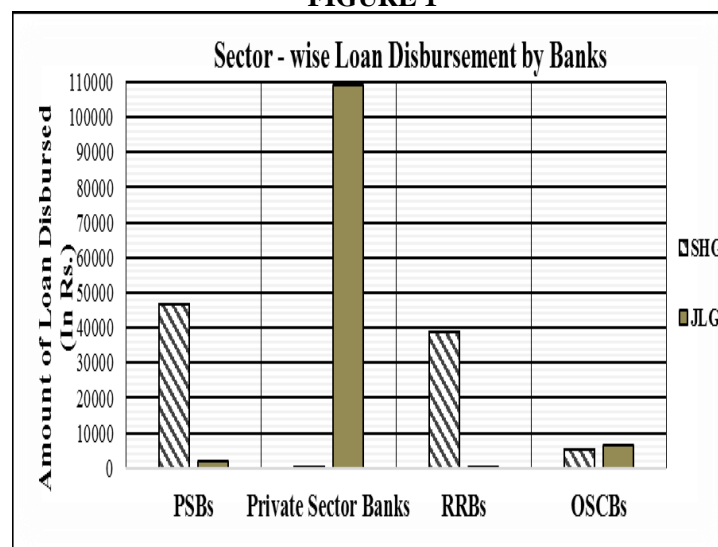
FINANCIAL YEAR	CATEGORY OF BANKS	LOAN DISBURSED TO SHG	LOAN DISBURSED TO JLG	GRAND TOTAL
FY 2016 - 2017	Public Sector	46,688.44	2055	48,743.44
	Private Sector	518.59	109,229	109,747.59
	Regional Rural Banks	38,905.10	314	39,219.10
	<b>Total of commercial banks</b>	<b>86,112.13</b>	<b>111,598</b>	<b>197,710.13</b>
	Cooperative banks	5,380.00	6,733	12,113
<b>GRAND TOTAL</b>		<b>91492.13 (43.60)</b>	<b>91,492.13 (43.60)</b>	<b>118,331 (56.40)</b>

Source: 147<sup>th</sup> SLBC Meeting Booklet for the quarter ended 31<sup>st</sup> March, 2017

### NOTE:

- Figures in parenthesis denote percentage to the grand total of the respective cell.
- SHG represents "Self Help Groups" and JLG represents "Joint Liability Groups".

**FIGURE 1**



### NOTE:

- PSBs denote Public Sector Banks, RRBs denote Regional Rural Banks and OSCBs represent Odisha State Cooperative Banks

### DISTRICT WISE LOAN DISBURSEMENT BY MFIS

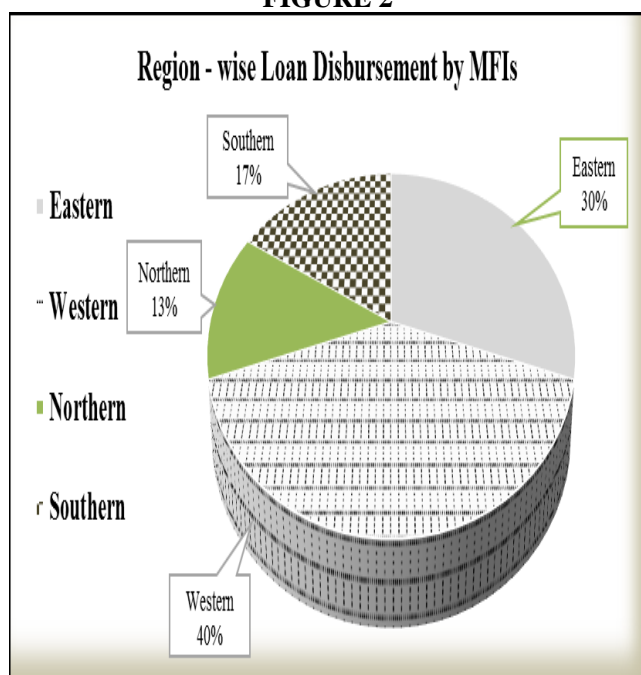


**TABLE 3**  
(Rs. In Lakhs)  
(figures of loans disbursed)

Regions	Number of Districts	Registered with RBI, Bhubaneswar,	Registered with other RBIs	Total
Eastern	9	16692.50	418195.0685	434887.5685
Western	12	36335.05	440396.89932	476731.94932
Northern	4	12315.0796	171451.05	183766.1296
Southern	5	8818.34	76693.79	85512.13

Source: Primary Data

**FIGURE 2**



**Analysis**

Critical examination of the pie chart reveals that the maximum amount of loan is disbursed by the Micro Finance Institutions to the western region of Odisha which comprises of 12 districts. While, MFIs registered with RBI, Bhubaneswar disbursed Rs.36,335.05 lakhs, other RBIs disbursed, Rs. 440,396.89952 lakhs. Also, it can be observed that the maximum amount of loan is deployed to the Ganjam district i.e. Rs. 118,322.16 lakhs followed by Cuttack district i.e. Rs. 85,730.82 lakhs and Bargarh district i.e. Rs. 80,568.24384 lakhs.

**Branch Network**

Critical analysis of Figure 3 reveals that banks have a wider geographical coverage in terms of number of branches as compared to Micro Finance Institutions, specifically in the state of Odisha. Commercial banks (which include both public sector and private sector banks), Regional Rural Banks and Odisha State Cooperative Banks have 5,031 branches in total which disburse loans and advances to the priority sectors. Most of the branch network of Public Sector, RRBs and cooperative banks are concentrated in the rural areas.

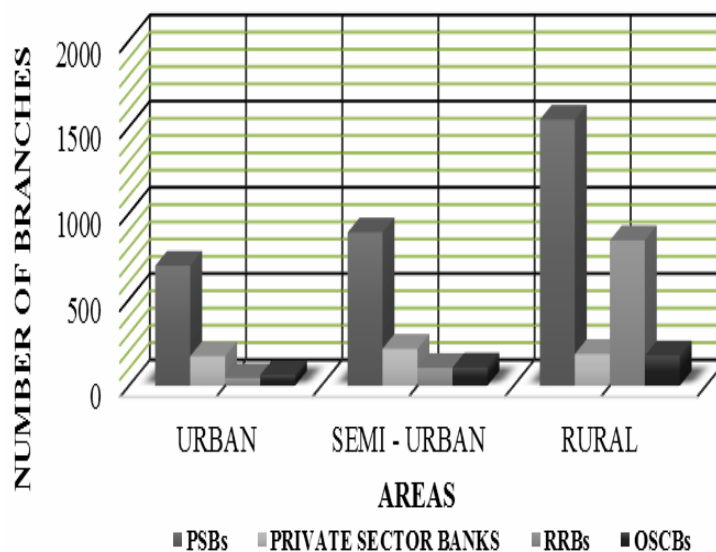
**TABLE 4**

SL NO	BANKS	AREAS			TOTAL
		URBAN	SEMI-URBAN	RURAL	
1	Public Sector Banks	696	889	1543	3128
2	Private Sector Banks	171	214	184	569
3	Regional Rural Banks	45	103	843	991
	<b>Total of Commercial Banks</b>	<b>912</b>	<b>1206</b>	<b>2570</b>	<b>4688</b>
4	Cooperative Banks	62	106	175	343
	<b>TOTAL</b>	<b>974</b>	<b>1312</b>	<b>2745</b>	<b>5031</b>

Source: 147<sup>th</sup> SLBC Meeting Booklet for the quarter ended 31<sup>st</sup> March, 2017

**FIGURE 3**

**Bank and Area - wise Banks Branches in Odisha**



District wise branch list of MFIs (Graphical Representation and Analysis)

**TABLE 5**

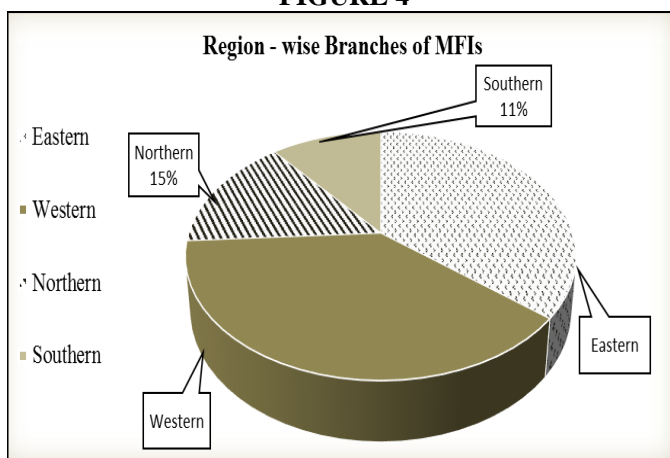
Region	Sl. No.	Districts	REGIONAL OFFICE		GRAND TOTAL
			Bhubaneswar	Other RBIs	
EASTERN	1	Cuttack	14	34	48
	2	Dhenkanal	1	14	15
	3	Ganjam	6	48	54
	4	Jagatsinghpur	0	7	7
	5	Jajpur	6	22	28
	6	Kandhamal	1	3	4
	7	Kendrapara	0	0	0
	8	Khurda	10	37	47
	9	Puri	3	27	30
	<b>TOTAL</b>			<b>41 (29.29)</b>	<b>192 (37.65)</b>
WESTERN	1	Angul	5	20	25
	2	Balangir	7	27	34
	3	Bargarh	9	26	35
	4	Boudh	2	8	10
	5	Deogarh	1	2	3
	6	Jharsuguda	4	9	13
	7	Kalahandi	6	18	24
	8	Nayagarh	3	18	21
	9	Nuapada	3	4	7
	10	Sambalpur	2	20	22
	11	Sonepur	3	14	17
	12	Sundargarh	7	30	37
<b>TOTAL</b>			<b>52 (37.14)</b>	<b>196 (38.43)</b>	<b>248 (38.15)</b>
NORTHERN	1	Balasore	5	25	30
	2	Bhadrak	5	16	21
	3	Keonjhar	5	16	21
	4	Mayurbhanj	4	22	26
	<b>TOTAL</b>			<b>19 (13.57)</b>	<b>79 (15.49)</b>
SOUTHERN	1	Gajapati	1	3	4
	2	Koraput	8	15	23
	3	Malkangiri	4	2	6
	4	Nabarangpur	10	12	22
	5	Rayagada	5	11	16
	<b>TOTAL</b>			<b>28 (20)</b>	<b>43 (15.49)</b>
<b>GRAND TOTAL</b>			<b>140</b>	<b>510</b>	<b>650</b>

Source: Primary Data

NOTE:

- Figures in parenthesis denote percentage to the total of respective cell.

**FIGURE 4**



**District - wise Branch Network of Banks**

**TABLE 6**

Region	Sl. No.	Districts	Urban	Semi - Urban	Rural	Total
EASTERN	1	Cuttack	175	23	188	386
	2	Dhenkanal	2	41	80	123
	3	Ganjam	90	120	204	414
	4	Jagatsinghpur	6	52	101	159
	5	Jajpur	3	52	143	198
	6	Kandhamal	0	31	41	72
	7	Kendrapara	1	40	91	132
	8	Khurda	390	56	169	615
	9	Puri	48	26	145	219
	<b>TOTAL</b>			<b>715 (73.41)</b>	<b>441 (33.61)</b>	<b>1162 (42.33)</b>
WESTERN	1	Angul	4	68	104	176
	2	Balangir	1	72	83	156
	3	Bargarh	4	45	102	151
	4	Boudh	0	22	26	48
	5	Deogarh	1	20	23	44
	6	Jharsuguda	4	49	39	92
	7	Kalahandi	4	48	88	140
	8	Nayagarh	0	34	84	118
	9	Nuapada	1	18	39	58
	10	Sambalpur	65	27	77	169
	11	Subarnapur	5	28	42	75
	12	Sundargarh	102	53	103	258
<b>TOTAL</b>			<b>191 (19.61)</b>	<b>484 (36.89)</b>	<b>810 (29.51)</b>	<b>1485</b>

NORTHERN	1	Balasore	36	52	150	238
	2	Bhadrak	3	38	99	140
	3	Keonjhar	2	87	114	203
	4	Mayurbhanj	18	61	182	261
	TOTAL		59 (6.06%)	238 (18.14%)	545 (19.85%)	842
SOUTHERN	1	Gajapati	5	23	37	65
	2	Koraput	2	50	66	118
	3	Malkangiri	0	15	28	43
	4	Nabarangpur	0	26	36	62
	5	Rayagada	2	35	61	98
TOTAL		9 (0.92%)	149 (11.36%)	228 (8.31%)	386	
GRAND TOTAL			974	1312	2745	5031

Source: 147<sup>th</sup> SLBC Meeting Booklet for the quarter ended 31<sup>st</sup> March, 2017

**NOTE:**

- Figures in parenthesis denote percentage to the total of respective cell.

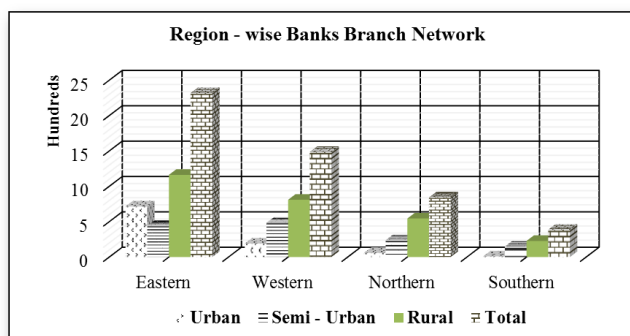
The total number of branches of banks in Cuttack district is 386 which is less as compared to Micro Finance Institutions in that particular district of Odisha. However, as stated earlier, the banks do have a wider geographical coverage / penetration in Odisha as compared to the Micro Finance Institutions.

The region-wise data has been consolidated in Table 7 and Figure 5:

**TABLE 7**

Regions	Urban	Semi-Urban	Rural	Total
Eastern	715	441	1162	2318
Western	191	484	810	1485
Northern	59	238	545	842
Southern	9	149	228	386
<b>TOTAL</b>	<b>974</b>	<b>1312</b>	<b>2745</b>	<b>5031</b>

**FIGURE 5**



Same is the case for Public Sector Banks, Private Sector Banks, Regional Rural Banks and Odisha State Cooperative

Banks. The eastern region of Odisha has the maximum number of branches i.e. 2,318, followed by the western region at 1,485 branches. There are more branches in the rural sector as compared to the urban and semi-urban sectors.

**Analysis**

The research study is based on primary data collected from individual MFIs in the state of Odisha. It occupies a total geographical area of 155,707 sq. km spreading over 30 districts, 314 blocks and 317 tahsils. The total population of the state as per Census 2011, is 4,19,74,218. (Source:www.odisha.gov.in)

The most practical way of sampling i.e. Systematic Sampling Method is used for the purpose of Chi-Square Test. At first, a random district i.e. Cuttack was chosen and thereafter, every 4<sup>th</sup> district became an element of the sample. Thus, the sample of 10 districts that comprises of Cuttack, Jagatsinghpur, Kendrapara, Angul, Boudh, Kalahandi, Sambalpur, Balasore, Mayurbhanj and Malkangiri were taken into consideration for the study.

**Data and Research Design**

Impact of NBFC-MFIs and banks on financial inclusion in the state of Odisha could be analysed by comparing the extent of geographical penetration / coverage of NBFC-MFIs as well as banks in the urban areas as against the semi-urban and rural areas. The authors decided that the approach would yield good results if the data is collected separately for urban, semi-urban and rural areas for FY 2016-17. Therefore, the impact of NBFC-MFIs and banks on financial inclusion has been assessed, analysed, interpreted and generalized by comparing “Branches in rural and semi-urban areas” and “Branches in urban areas”.

For the test of independence, two independent attributes i.e. “Branches” and “Financial Inclusion” are taken into consideration.

District-wise primary data of the number of branches of 16 individual MFIs operating in Odisha were collected from the concerned entities. On the other hand, data pertaining to banks was taken from secondary sources i.e. 147<sup>th</sup> SLBC (State-Level Bankers’ Committee) Meeting Booklet for the quarter ended 31<sup>st</sup> March, 2017. Impact of number of branches of Micro Finance Institutions and banks on poverty alleviation and thus, the extent to which they cater to the primary objective of financial inclusion in the country has been proven by way of mathematical model Chi-Square test. As mentioned in the above paragraphs, Systematic Sampling Procedure has been used in order to obtain samples from the entire population. However, the basic objective is ensuring access to formal credit for individuals who primarily depend upon the informal sector for fulfilling their financial needs and financial education as well as to ensure that the poor and marginalized make the

best use of their money. Since higher penetration of formal financial services is a positive developmental indicator, policymakers all over the world are pushing for greater financial inclusion.

Chi-Square Test is applied in this study in order to test the significance of the association between the number of branches of NBFC-MFIs and financial inclusion in the state of Odisha. Chi-Square Test is not a measure of the degree of relationships or the form of relationship between the above-mentioned attributes. Rather, it is simply a technique of judging the significance of such association or relationships between variables / attributes.

### Findings

The contingency table (Table 8) represents the data obtained from respective Micro Finance Institutions and other secondary sources (in the case of banks):

**TABLE 8**  
**Contingency Table**

Financial Institutions	AREAS		TOTAL
	SEMI - URBAN & RURAL (a)	URBAN (b)	
MFIs (A)	73	125	198
Banks (B)	754	278	1032
<b>TOTAL</b>	<b>82</b>	<b>403</b>	<b>1230</b>

As per the data available in the web portal of Odisha Government, there are 10 cities in the State which include Angul, Balasore, Bhadrak, Baripada, Bhubaneswar, Balangir, Cuttack, Puri, Rourkela and Sambalpur. (Source: [www.odisha.gov.in](http://www.odisha.gov.in))

The districts in which they are situated are categorized as Urban Areas and comprise of the following:

Angul	Cuttack	Balasore
Puri	Bhadrak	Sundargarh
Khurda	Sambalpur	Balangir

The remaining 21 districts thus fall under the category of Semi-Urban and Rural Areas. Categorization of districts under Urban, Semi-Urban and Rural Areas in the case of Micro Finance Institutions is just an assumption. On the other hand, SLBC Meeting Booklet itself contains area-wise categorization of banks. It is hereby to be noted that the groups are made for ease of understanding, calculations, interpretations and generalizations; "Aa" denotes "MFIs operating in the Semi Urban and Rural Areas"; "MFIs

operating in the Urban Areas" are grouped under "Ab" category. Same is the case for the banks. "Ba" represents "Banks operating in the Semi-Urban and Rural Areas"; "Bb" represents "Banks operating in the Urban Areas".

Table 9 represents the calculated value of Chi- Square:

**TABLE 9**  
**Chi - Square Table - Calculations**

1	2	3	4	5	6
GROUP	O <sub>i</sub>	E <sub>i</sub>	(O <sub>i</sub> -E <sub>i</sub> )	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup>	(O <sub>i</sub> -E <sub>i</sub> ) <sup>2</sup> /E <sub>i</sub>
Aa	73	133.127	-60.127	3615.256	27.156
Ab	125	64.873	60.127	3615.256	55.728
Ba	754	693.873	60.127	3615.256	5.210
Bb	278	338.127	-60.127	3615.256	10.692
					<b>98.786</b>

### Note:

- O<sub>i</sub>-Observed Frequency of the cell in *i*th row and *j*th column
- E<sub>i</sub>-Expected Frequency of the cell in *i*th row and *j*th column
- Expected Frequency is calculated as per the formulae mentioned below:  
(Row Total for the row of that cell \* Column Total for the column of that cell) / Grand Total
- Chi - Square  $\chi^2 = \sum(O_i - E_i)^2 / E_i = 98.786$   
Calculation of Expected Frequency:  
Aa - (198 \* 82) / 1230 = 133.127  
Ab - (198 \* 403) / 1230 = 64.873  
Ba - (1032 \* 82) / 1230 = 693.873  
Bb - (1032 \* 403) / 1230 = 338.127

### III. Results and Discussion

The calculated value of  $\chi^2$  i.e. 98.786 approximately is greater than that of the tabulated F - value i.e. 3.841 at 5% level of significance for 1 degree of freedom.

### Generalizations

Thus, Null Hypothesis does not hold well in this case and hence, we reject H<sub>0</sub> (i.e. Null Hypothesis) and accept H<sub>1</sub> (or Alternate Hypothesis). Hence, we can conclude that NBFC-MFIs do serve as a tool for alleviating poverty in Odisha. Two independent attributes considered for the study i.e. "Branches" and "Financial Inclusion" are dependent upon each other. Thus, we can infer that they are associated with each other and therefore, positively correlated. Results of the study clearly show that although the total number of branches of NBFC-MFIs is less as compared to the banks and they are concentrated in the urban and semi-urban areas as compared to the rural areas,

they are able to serve the primary objective / purpose of financial inclusion in a better way than that of banks. The Chi-Square results have proven that the NBFC-MFIs have a greater contribution towards financial inclusion in the state of Odisha as compared to the banks.

### **Suggestions**

The findings in the previous sections reveal that not only in the Indian Micro Finance Industry, but also in the state of Odisha, NBFC-MFIs do hold a significant share in terms of better loan disbursement, branch and client outreach and collection rates.

In a nutshell, credit penetration of NBFC-MFIs in Odisha is more than that of banks for FY 2016-17. We can even infer that the financial performance as well as operational performance of NBFC-MFIs in Odisha is better as compared to the banking system. The three MFIs registered with that of RBI, Bhubaneswar have no branches in Kendrapara and Jagatsinghpur districts of Odisha. Penetration of MFIs in those areas may further increase their outreach in terms of loan deployment and individual clients.

The key focus areas and building blocks for stable and prudent growth of the business to play its role in furthering the objective of Financial Inclusion of the country would include the following:

- Further penetration in less penetrated districts
- Strengthening / Restoring the credit discipline and culture of repayment
- Cost optimization through IT - enablement
- Stronger self - regulatory commitment from all players in the sector
- Safeguarding of the business model from external activism
- Mainstreaming of the business within the larger financial interest.
- Proper management and governance mechanism to curb unethical practices

### **Applicability and Generalizability**

The research paper is based on credit penetration of MFIs in less penetrated areas in the state of Odisha. The study will, however, have a huge impact on developing economies like India. The research study identified six underlying forces applicable to various emerging and developing countries apart from India i.e. demographic transition, reduced property, urbanization, economic growth, technological innovations and shifts in microfinance paradigms which will further drive the growth of the microfinance industry.

### **Inference**

In India, the Micro Finance Industry is an integral part of the finance industry. This sector meets the credit needs of

thousands of budding entrepreneurs. Compared to conventional modes of financing, MFI is altogether different as it demands a different mindset and skills. The Micro Finance Industry has seen tremendous growth over the past five years, growing at a CAGR of 45%. It has witnessed rapid evolution with regulatory reforms post the Andhra Pradesh crisis in 2010 to regulate product, pricing and protection of customer interest. This included the growth of regulated NBFC-MFIs (a special class of RBI regulated entities carrying out Micro Finance), the formation of the first ever Self-Regulatory Organizations (SROs) of the RBI, Aadhar based lending by NBFC-MFIs and transformation of some of the entities into Universal and Small Finance Banks.

Regulators have played a major role in this transformation, acknowledging the need to promote this sector by providing it with a more robust and transparent framework. The dynamism in the sector has just got another dimension with several large MFIs getting the license to convert into SFBs. Unfortunately; the business is still highly cash-oriented both on disbursements and repayments. However, post demonetization, the trend is shifting towards cashless disbursements and repayments. Micro finance is at a critical juncture today. It has proved its viability as a business model, as well as its ability to reach out to a significant section of the population which needs mainstreaming.

It will continue to remain a relevant and important conduit for providing financial services to a vast segment of the population, acting as a complement to banks. However, given the inherent vulnerability of the customer base, it is important to plan for current and future risks that can impact repayments and slow down the access to regulated credit lines for the underserved.

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# AN EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN PERSONALITY TRAITS AND FASHION CONSCIOUSNESS AMONG COLLEGE GOING STUDENTS IN INDIA

**Aarush Shokeen\* Anshu Lochab\*\* Poonam Khurana\*\*\***

**Purpose:** *The purpose of the paper is to investigate the relationship between personality traits and fashion consciousness among college going students in India.*

**Design/methodology/approach:** *Data were collected from 447 college going students. The age group of the students were between 16-25 years. A standardised questionnaire was used to get the responses from college going students in Delhi & NCR region in India. Confirmatory factor analysis was done using AMOS software version 22 and found that variables satisfy the criteria of path analysis. The hypothesized model in the study was also tested using AMOS Software*

**Findings:** *The findings revealed that all personality traits were found to be significantly associated with fashion consciousness. The findings of the study is contradicting the results of previous studies which is good to see that Indian consumers behave differently than other country nationals. The Big Five personality play an important role in understanding young consumers in our country.*

**Originality/value:** *The study enriches the personality traits and fashion consciousness literature by identifying and empirically establishing the relationship between various personality traits and fashion consciousness of college going students.*

**Keywords:** Personality traits, Fashion consciousness, India, Young generation, Big Five personality.

**JEL Classification:** M-3

The growth of fashion industry in recent years can be attributed to consumers' changing attitudes towards fashion. Consumers are becoming more fashion-conscious and keeping themselves updated with the latest fashion trends (D'Aveni, 2010). Generation Y, in particular, was found to have a distinctive approach to shopping than any other generational cohorts (Bakewell and Mitchell, 2003). As argued by Srinivas and Steven (2008), the distinctive characteristics of Generation Y differ across cultures.

Generation Y, popularly known as the millennial generation, has fascinated practitioners and academicians all over the world (Bolton et al., 2013). Born between the years of 1980 and 2000 (Weingarton, 2009), Generation Y is the world's second largest consumer cohort (Ordun, 2015), with highest levels of discretionary income at their disposal (Leask et al., 2013).

Fashion consciousness refers to —a person's degree of involvement with the styles or fashion of clothing... characterized by an interest in clothing and fashion, and in one's appearance (Nam et al. 2007, p.103). Fashion consciousness has been identified as an important dimension of a person's lifestyle that affects purchase decision and consumption behavior (Sproles and Kendall 1986; Wells and Tigert 1971). People who are highly fashion conscious may pay more attention to the image portrayed by prestige brands and therefore may be more prestige-sensitive than those who are less fashion conscious. Despite the potential associations

between fashion consciousness and prestige sensitivity, little studies have been devoted to examine the relationship between the two concepts.

Consumer personality plays an important role in fashion marketing as it is argued that consumers are highly influenced by their self-concept [which is a function of personality] when it comes to fashion shopping behavior (Piacentini and Mailer 2004). While studies in the past have attempted to use personality traits as a predictor of fashion shopping behavior (Goldsmith 2002b; McIntyre and Miller 1992; Summers, Belleau, and Xu 2006), little studies have been done to examine the role of consumer personality traits in affecting prestige preferences. With prestige sensitivity as the focal construct, this study seeks to propose a conceptual framework on the relationship between consumer personality traits, fashion consciousness, and prestige sensitivity.

In train theory Big five model has a considered as a core benchmark in the theory of personality

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This model has allowed researchers to investigate individual personality differences associated with different traits that shows relationship with five different personality traits. It has examined the differences of individual personality on the basis of these traits.

This study is done to examine the personality traits of consumers with respect to millennials and their fashion consciousness. It can be concluded like the study has attempted to investigate the differences of personality among consumers regarding their fashion consciousness.

This study has been done in India in the national capital region and can be generalised in Indian context.

## I. Review of Literature

Personality is being in core since early 1960s among researchers to investigate their preference and choices keeping in mind different kind of products and services. Understanding the personality differences and consumer behaviour was biggest attraction among researchers. (Westfall, 1962; Birdwell, 1968). Researches by McIntyre and Miller (1992) recommended that personality has moderating effect between individual behaviour and their fashion consciousness. In the fashion market personality traits has much significant to understand the behaviour of consumers. The young generation has greater influence of their personality traits for shopping behaviour related with fashion consciousness (Piacentini and Mailer, 2004).

The studies in marketing have revealed mix results between the fashion consciousness and personality traits. Some of the studies have reflected that personality traits moderate between the relationship of fashion consciousness and consumer behaviours along with their consumption pattern. (Goldsmith, 2002; McIntyre and Miller, 1992). Some of the studies have indicated that individual personality traits and their purchase intention has no significant relation with respect to their fashion consciousness (Summers et al., 2006).

The Big Five personality traits have considered as benchmarked in personality related theory. The Big Five model supported researchers to evaluate and assess consumers on the basis of their personality traits. That has associated with different five personality aspects. These are as follows:

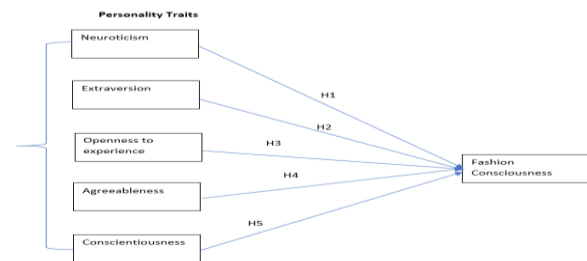
- **Neuroticism:** It evaluates the emotional instability of an individual (e.g. calm vs. worried) (Goldberg, 1990).
- **Extroversion:** It evaluates the way an individual interacts in his environment considering its quantity and intensity (e.g. reserved vs. sociable) (McCrae and Costa, 1990).

- **Openness to Experience:** It evaluates the degree of proactive approach, have desire of appreciation, toleration and exploration of unknown terrain (e.g. conventional vs. curious) (McCrae and Costa, 1990; Piedmont, 1998)
- **Agreeableness:** It evaluates interpersonal orientation of an individual in the qualitative way along with compassion to antagonism (e.g. suspicious vs. trusting) (McCrae and Costa, 1990).
- **Conscientiousness:** Assesses an individual's degree of organization, persistence, and motivation in goal-directed behaviour (e.g. aimless vs. organized) (McCrae and Costa, 1990)

Despite the plethora of studies in the application of The Big Five, no studies have been done to explore whether significant differences exist between The Big Five personality traits in the fashion consciousness in Indian context.

H1;a,b,c,d,e: There is a significant relationship between personality traits and fashion consciousness.

**Fig.1 Hypothesised Model**



Source: Researcher's Own

## II. Research Design and Methods

Fig 1. Shows the relationship between different variables used for the study and direction of relationship among the mentioned variables. In this study, six variables namely, Neuroticism, Extraversion, openness to experience, agreeableness, conscientiousness and fashion consciousness. The study has been conducted with an objective first, to find out the relationship between personality traits with fashion consciousness among youths in Delhi and NCR region in India. A well-structured questionnaire was adapted for the purpose of this study. The questionnaire comprises 22 items. There are three item statements in Neuroticism, extraversion comprises four statements. Openness to experience comprises two statements. Agreeableness comprises three statements. Conscientiousness includes five statements and finally fashion consciousness comprises of five statements. The reliability of variables was tested using these items and found that variables



fulfil the criteria of reliability (i.e.,  $\alpha=.861$ ) (Nunnally, 1970). Confirmatory factor analysis was done using AMOS software version 22 and found that variables satisfy the criteria of path analysis. The hypothesized model in the study was also tested using AMOS Software. The sample of the study was collected from college going students in Delhi & NCR region. The sample for this study includes both male and female young of between the age groups of 16-25 years of age. Data was collected from Delhi & NCR region through google from (online). Questionnaires were sent to more than 1000 of college going students. Total 567 responses were received in which only 447 responses were found suitable for the purpose of this study. The response rate was 44 % only.

**Measures**

**Neuroticism.** It is measured using 3 statements holding a Cronbach value of 0.789 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

**Extraversion.** It is measured using 3 statements holding a Cronbach value of 0.813 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

**Openness to experience.** It is measured using 2 statements holding a Cronbach value of 0.748 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

**Agreeableness.** It is measured using 3 statements holding a Cronbach value of 0.797 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

**Table 1: Statistics of Construct Item**

	Mean	Std. Deviation	Factor Loading	SRW
<b>Neuroticism alpha = .789,</b>				
EU1	5.15	1.411	.736	0.799
NEU2	5.55	1.306	.839	0.863

NEU3	5.53	1.315	.742	0.611
<b>Extraversion alpha= .813</b>				
EXT1	5.45	1.204	.798	0.468
EXT2	5.18	1.443	.778	0.798
EXT3	4.89	1.498	.849	0.8
EXT4	5.03	1.425	.800	0.853
<b>Openness to experience alpha= .748</b>				
OP1	4.50	1.530	.707	0.195
OP2	4.13	1.551	.807	0.725
<b>Agreeableness alpha= .797</b>				
AG1	4.00	1.549	.831	0.859
AG2	4.07	1.562	.854	0.796
AG3	4.44	1.497	.697	0.585
<b>Conscientiousness alpha= .749</b>				
CONS1	4.63	1.292	.595	0.544
CONS2	4.88	1.352	.752	0.684
CONS3	5.09	1.191	.728	0.683
CONS4	4.79	1.474	.696	0.586
CONS5	5.19	1.115	.799	0.607
<b>Fashion Consciousness alpha= .794</b>				
FCS1	5.16	1.104	.763	0.695
FCS2	5.23	1.080	.794	0.805
FCS3	5.28	1.160	.719	0.688
FCS4	5.27	1.101	.778	0.763
FCS5	4.89	1.237	.799	0.425

Source: Researcher’s Own

**Conscientiousness.** It is measured using 5 statements holding a Cronbach value of 0.749 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

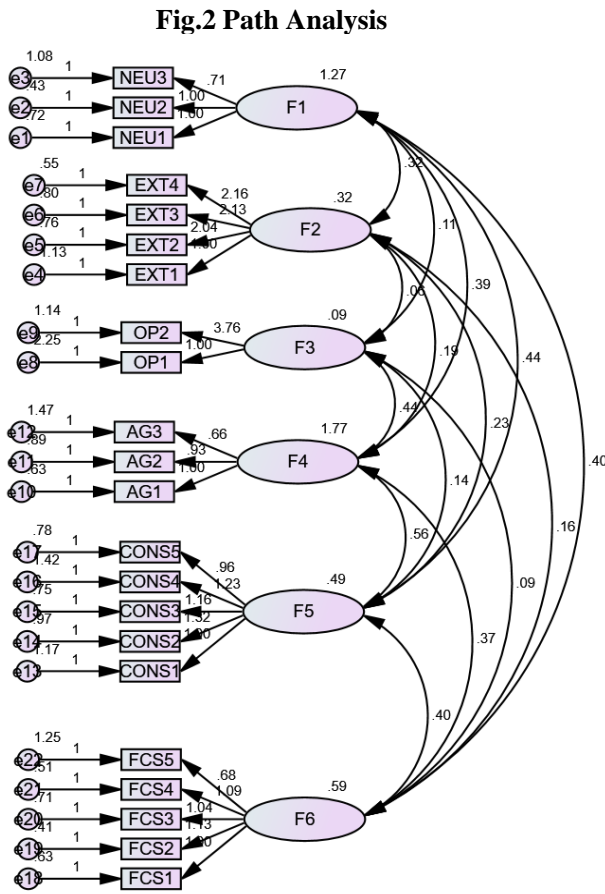
**Fashion Consciousness.** It is measured using 5 statements holding a Cronbach value of 0.794 All measures are found suitable for the purpose of this study. Mean, standard deviation, factor loadings and standardised regression weight of all the statements used for the purpose of this study is also being mentioned in the table No.2. Likert seven scale has been used where ‘1=strongly disagree; 7= strongly agree’

**Table 2: Modification Indices**

CMIN/df	CFI	GFI	TLI	RMSEA
3.87	.895	.882	.859	.095

Source: Researcher’s Own

The CFA method primarily conclude that how specific factor in the model represent the data. That can be examined with the help of model fit indices. if parameters of model fits are found to be good the model get validated. The structural model was found to be a good fit having CMIN/DF = 3.87 (As high as 5.0, Kline, 1998), GFI = 0.882 (>.80, Mac Callum &Hing, 1997) CFI=0.895 (>.90, Hu and Bentler, 1999), TLI = 0.859 (>.90, Hooper et al., 2008) RMSEA = 0.095 (<0.07, Stinger, 1990 and between 0.08 to .10, Mac Callum et al., 1996),. The proposed structured model of the study indicates that all paths are significant statistically as p -value of all are less than .05.



Source: Research Output

Table 3: Regression Analysis

IDV><DV	Beta	se	t	sig	Hypothesis
NEU<>FCS	.363	.027	13.230	.000	Supported
AG<>FCS	.255	.029	8.871	.000	Supported
EXT<>FCS	.573	.058	9.893	.000	Supported
CONS<>FCS	.887	.029	30.809	.000	Supported
OP<>FCS	.362	.027	13.130	.000	supported

Source: Research Output

First, from the table 3 it is evident that Neuroticism (NEU) has insignificant impact on fashion consciousness (FCS). Where b (0.363), t (13.230) and p>0.05. Hence the hypothesis (H1) is supported.

Second, from the table 3 it is evident that agreeableness (AG) has insignificant impact on fashion consciousness (FCS). Where b (0.255), t (8.871) and p>0.05. Hence the hypothesis (H2) is supported.

Three, from the table 3 it is evident that Extraversion (EXT) has insignificant impact on fashion consciousness (FCS). Where b (.573), t (9.983) and p>0.05. Hence the hypothesis (H3) is supported.

Four, from the table 3 it is evident that conscientiousness (CONS) has insignificant impact on fashion consciousness (FCS). Where b (.887), t (30.809) and p>0.05. Hence the hypothesis (H4) is supported.

Fifth, from the table 3 it is evident that openness to experience (OP) has insignificant impact on fashion consciousness (FCS). Where b (.362), t (13.130) and p>0.05. Hence the hypothesis (H5) is supported.

Therefore, it is evident from the result of the study that all personality traits has significant impact on fashion consciousness.

### III. Results and Discussion

The major purpose of the paper is to find out the impact of personality traits on fashion consciousness. The results of the study have revealed interesting facts. The study has found that all Big Five personality traits have significant impact on fashion consciousness whereas in previous studies it is reflected that few personality traits have significant impact while others has no significant impact on fashion consciousness (Casidy, 2012).

It is evident from the result of the study that in Indian context it is surprising to see that all kind of personality traits has significant positive relationship with fashion consciousness. College going students in India largely get influenced by social factors rather than with their own personality. It is great to find out that what other factors, which are affecting the decision making of college going students.

As the implication of this study is concerned, it can inspire managers to understand the importance of personality traits. Once the manager realizes the importance of this practice, they will provide customised services to the customers. Customers will be able to express their concern for different kinds of requirements. If it is going to be taken care of by the managers customers will stay with them and will help in improving the performance of the business. One important observation which can be suggested to the managers working in the fashion industry that it is not only young consumers but

how nicely all staff members are behaving with them also play an important role. Therefore, it is suggested to the managers kindly practice customer friendly ways to improve their satisfaction.

However, this paper has made significant contributions to the existing literature. However, this study has certain limitations too. The sample was taken from the college going students from Delhi and NCR in India confined to national capital regions only. This research can be extended to the other parts of the country also. Similar data can be taken from other age groups people and results can be compared. There may be other important variables, which can mediate the relationship between personality traits and fashion consciousness. The variables can be materialism, sensitivity etc. it may be possible that both of the methods like quantitative and qualitative can be added in future research. Finally, similar study can be done in other sectors also.

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# DEVELOPING EMPLOYEE LOYALTY THROUGH EMPLOYEE ENGAGEMENT: AN EMPIRICAL INVESTIGATION OF INDIAN TELECOM INDUSTRY

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**Purpose:** Present research focused on examining the impact of various key antecedents on employee engagement through an empirical approach. Further, study also investigated the impact of employee engagement on employee loyalty in private telecom players in Jammu & Kashmir.

**Methodology:** A total of 265 complete responses were used for the purpose of data analysis. Simple random sampling has been used to collect the data. Data analysis has been done using AMOS through SPSS software.

**Findings:** Findings of the study demonstrated that antecedents have significant positive impact on employee engagement. In addition to this, employee engagement has a significant positive influence on employee loyalty.

**Originality/Value:** There are few studies which discussed the impact of employee engagement on employee loyalty in private telecom players. This study has addressed the gap. Novel theoretical model has been developed and tested through empirical approach. This study provides a valuable contribution to the literature on employee engagement in the telecom workplace.

**Keywords:** Employee Engagement; Employee Loyalty; Organizational Justice; Rewards and Recognition; Perceived Organizational Support; Telecom Industry.

**JEL Classification Code:** M10, M12, M19

In today's dynamic business environment, organizations are operating in highly competitive market situation. Due to the deregulation of Foreign Direct Investment (FDI), Indian Telecom industry has become rapidly escalating sector and has turned as biggest employment producer in the nation (Omam Consultants, 2019). Further, globalization and dynamic nature of job environment give emphasis to the value the human resources along with the other assets of the organizations (Hamid & Muzaffar, 2015). However, such environment has make workforce more agile that is likely to hunt for new job opportunity (Vaiman et al., 2015). Therefore, managing this growing employee turnover poses a major challenge before the Indian telecom sector (Mathur & Sharma, 2016). For managing this rising turnover companies need to engage their employees because such employees are always prepared to make all possible effort to achieving organizational as well as personal goals (Pillay & Singh, 2018). According to Ahmetoglu et al.(2015) when employees are engaged in their job, they are likely to show commitment and loyalty towards their organization. However, globally, quite low engagement has been reported among the employees in organizations (Albrecht et al., 2015). According to Gallup's State of the Global Workplace Report (2018) only thirteen percent of Indians are engaged in the workplace. It is therefore important to investigate the antecedents of employee engagement so that firms can develop unique policies to engage their employees. When the factors are identified, managers will be able to satisfy the needs of employee and can enhance their engagement level. Further, engaged employees ultimately

become more loyal towards their organizations (Preko & Adjetey, 2013). But very few studies have examined this relationship (Niranjan & Thomas, 2018). Against, this backdrop, present study aims is to understand the employee engagement concept, various drivers of employee engagement and employee loyalty as its outcome.

## I. Review of Literature

### Theoretical Foundation

Most of the latest research studies on employee engagement are based on the social exchange theory (SET) (Kahn, 1990). This theory is based on the principle that societal decisions are taken by the persons on the basis of their perception about the balance between benefits they get for the cost they incurred. Blau (1964) argued that according to this theory employees are encouraged to involve in their respective roles if they are based on a rational and unbiased exchange system. With the progression of time, this exchange relationship develops into commitments, loyalty, and trust (Maslach et al., 2001). According to Andrew and Sofian (2011), SET validates rationale for individual's decision to engross themselves in their work, depending upon the resources (social, emotional

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and financial) they received from their firms. Higher engagement level is one of the best ways for individuals to pay off their organization (Saks, 2006). In other words employees can respond to their organization by bringing themselves cognitively, physically and psychologically into their job (AbuKhalifeh & Som, 2013).

**Employee Engagement (EE)**

According to Abraham (2012), EE is the level of satisfaction employees have with their current job. Academia as well as practitioners considered EE as barometer that determines the rapport of an employee with their place of work (Sundaray, 2011). Further Khan (1990) defines EE as “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances”(p.694).

**Drivers of Employee Engagement**

**Organizational Justice (OJ)**

French (1964) coined the term organization justice. Organizational psychologists refer it as the fair and just way in which firm handles its workforce (Greenberg, 1990). It is also based on equality perceptions (Colquitt et al., 2005). When workforce notices that their firm is treating them fairly and justly, they will respond by engaging themselves in their job (Saks, 2006). According to Koyuncu et al. (2006) the feeling of safety is influenced by perceived justice in distribution of resources that is incentives as well as punishment. According to scholars (Greenberg, 1990; Greenberg & Colquitt, 2013) organizational justice is multiple dimensional construct which include only distributive and procedural justice. Dimensions of organizational justice have significant positive impact on employee engagement (Li, 2012; Sultanova & Chechina, 2016). Therefore, two hypotheses were developed as follows:

*H1: DJ is positively associated with EE.*

*H2: PJ is positively associated with EE.*

**Perceived Organization Support (POS)**

Allen et al. (2008) defined POS as the amount of care an organization extend towards its employee and how much their contribution is appreciated by the firm. Researchers highlighted that strong affinity of POS build up work attitude and behavior among employees (Rhodes & Eisenberger, 2002). Researchers have also supported affirmative relationship between POS and EE (Zacher & Winter, 2011; Rai et al., 2017). On the basis of above literature following hypothesis has been developed:

*H3: POS is positively associated with EE.*

**Rewards and Recognition (RR)**

Engagement among the employees varies in accordance with the perceived benefits received out of a job (Kahn, 1990). If role performances offer employees more benefit in the shape of rewards and recognition, they will definitely try to engage themselves. Maslach et al. (2001) give emphasis to adopt suitable system of recognition and reward for engaging the employee. Moreover, studies scrutinized rewards system of the firm acts as the supplementary prominent driver for engaging its workforce (Sanneh & Taj, 2015). Hence, following hypothesis has been framed:

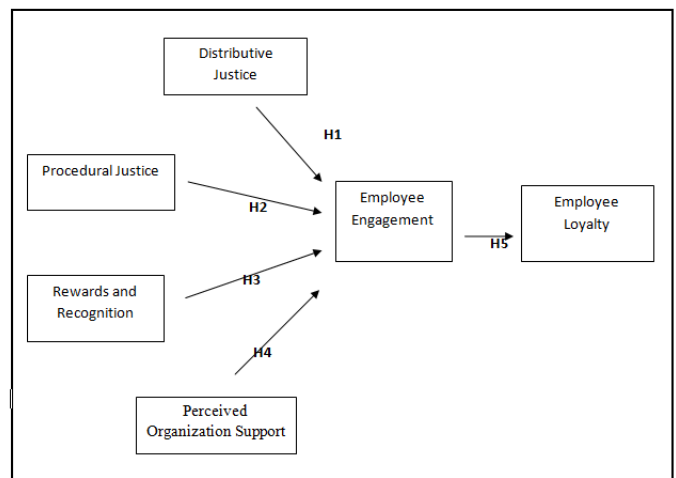
*H4: RR is positively associated with EE*

**Employee Loyalty (EL)**

EL is a construct which is related to the behavioural intentions of the employees (Dubov & Heaton, 1999). Researchers like Fielder (1992) and Ewin (1993) studied from loyalty from behavioral perspective and explained it as a significant bond between the employer and employees. Further, according to psychological contract standpoint loyalty is defined as positive psychological contract between an employee and employer (Hart & Thompson, 2007). Haar (2017) defined loyalty on the basis of attitudinal perspectives as employee’s feeling of attachment towards his firm. Researchers often use employee loyalty interchangeably with employee commitment (Niranjan & Thomas, 2018). Further, researchers stated that engaged employees are more loyal to their organizations (Schaufeli & Bakker, 2004; Basheer et al., 2019). Basheer et al. (2019) proposed that engagement develop loyalty among employees through the spiritual intelligence. Consequently following hypothesis has been developed:

*H5: EE has a positive impact on EL.*

**Figure 1: Conceptual Model of the Study**



## II. Research Design and Methods

### Instrument Measurement

The factors of EE, namely, DJ, PJ, POS, RR were measured using Sake (2006) scale. Schaufeli, et al. (2002) scale was employed to quantify EE. OL was measured with Homburg and Stock (2000) scale.

### Sample and Data Collection

A total of 350 questionnaires were distributed to the employees of 3 telecom players operating in J&K (UT) i.e. Bharti Airtel, Vodafone-Idea cellular and Reliance Jio Infocomm Limited. The selection of employees of the selected telecom companies was made by simple random sampling. Of the 350 distributed questionnaires, 265 were correctly found valid (i.e. 75% response rate).

## III. Results and Discussion

### Demographic Characteristics

A demographic analysis indicates that majority of the respondents were male (75%) and were between 20 and 30 years of age (47.2%). Furthermore, greater part of the respondents were graduate (44.9%). In addition to this, 35.8 percent have work experience between 1 to 5 years and 35.5 percent have 5 to 10 years.

### Descriptive Analysis

Mean for central tendency and standard deviation exhibit the minimum and maximum deviation of variables (Hair et al., 1998). Distributive justice item (DJ4) accounts for highest mean (4.32) and employee loyalty item (EL1) reports lowest mean (3.74). Detailed results are reported in Table 2.

### Measurement Model

To assess the performance of the measurement model, the confirmatory factor analysis (CFA) has been conducted. Standard loadings of the retained items, square multiple correlations and model fit values of measurement model are shown in table 1.

**Table 1: Descriptive, CFA and Model fit Results**

Constructs	Item Code	Mean	Standard Deviation	Standard Loadings	Square Multiple Correlation
Rewards and Recognition (RR)	RR1	3.94	0.981	0.75	0.56
	RR2	3.83	0.971	0.74	0.54
	RR3	4.00	0.963	0.73	0.53
	RR4	4.26	0.726	0.65	0.42
	RR5	4.18	0.870	0.68	0.46
Distributive	DJ1	4.06	0.766	0.86	0.73
	DJ2	4.19	0.683	0.71	0.50

e Justice (DJ)	DJ3	4.19	0.726	0.61	0.37
	DJ4	4.32	0.700	0.62	0.38
Procedural Justice (PJ)	PJ1	3.77	0.877	0.76	0.57
	PJ2	3.84	0.860	0.82	0.67
	PJ3	3.78	0.919	0.72	0.51
	PJ4	3.99	0.859	0.63	0.39
	PJ5	3.89	0.913	0.65	0.42
Perceived Organizational Support (POS)	POS1	3.98	0.795	0.74	0.54
	POS2	4.08	0.784	0.72	0.51
	POS3	4.15	0.785	0.71	0.50
Employee Engagement (EE)	EE1	3.98	0.990	0.71	0.50
	EE2	4.16	0.869	0.76	0.57
	EE3	3.82	1.014	0.64	0.40
	EE4	4.03	0.733	0.71	0.50
	EE5	4.10	0.796	0.76	0.57
	EE6	4.20	0.712	0.72	0.51
	EE7	4.10	0.806	0.75	0.56
Employee Loyalty (EL)	EL1	3.74	1.038	0.59	0.34
	EL2	4.05	0.992	0.76	0.57
	EL3	3.96	1.008	0.74	0.54
	EL4	4.00	0.992	0.83	0.68
<b>Model Fit Values (CMIN/DF=2.141, GFI=0.904, AGFI=0.993, CFI=0.994, RMR=0.022, and RMSEA=0.051)</b>					

### Reliability and Validity

Composite reliability (CR) of each latent variable was within acceptable range (i.e.>0.7) in CFA which shows the reliability of each latent variable (Hair et al., 2006) (see table 2). In addition to this, the factor loadings in measurement model came out to be above 0.50; thereby confirming strong convergent validity of the measurement model and implying that the variables strongly correlate within their parent factor. The average variance extracted (AVE) of each latent variable was also within acceptable range i.e. >0.5 (Traymbak et al., 2017) (see table 2). Furthermore, AVE was greater than SMCs between the constructs, confirmed adequate discriminant validity (Fornell & Larcker, 1981).

**Table 2: Reliability and Validity Results**

Constructs	$\alpha$	CR	AVE
RR	0.727	0.836	0.506
DJ	0.723	0.797	0.500
PJ	0.847	0.842	0.518
POS	0.769	0.767	0.523
EE	0.718	0.884	0.522
EL	0.841	0.823	0.541

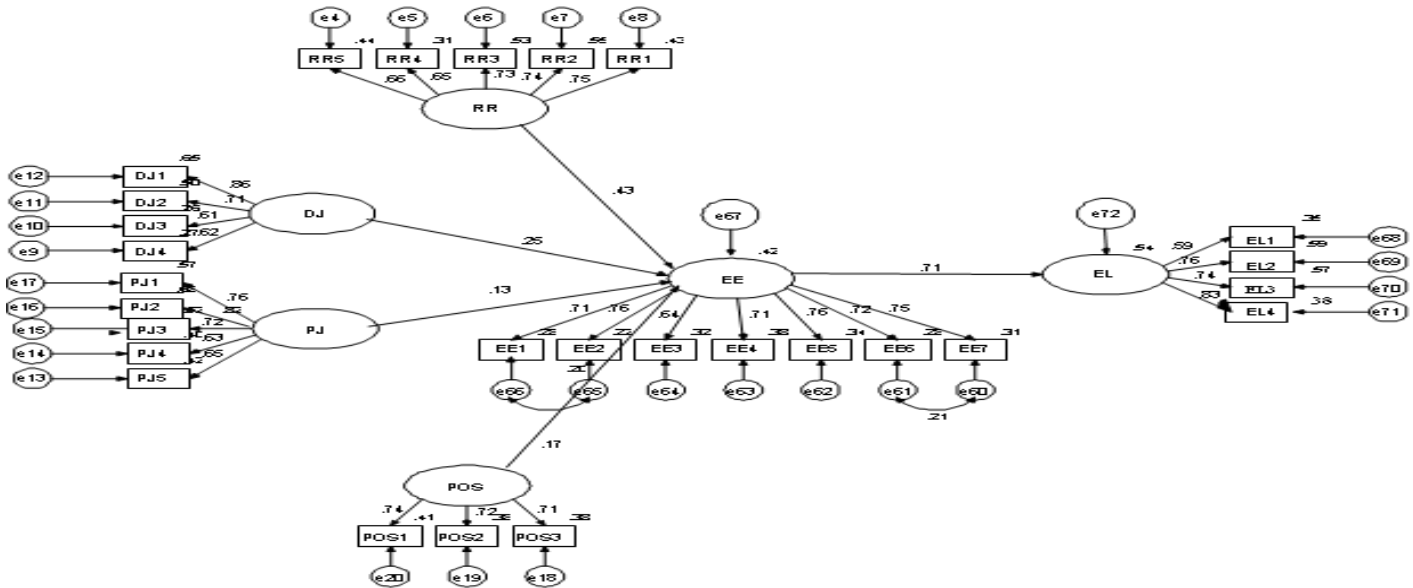
## Hypothesis Testing

In the present study six variables were inspected which include four antecedent variables (DJ, PJ, POS and RR), one central variable (EE) and one consequence variable (EL).

To test the hypotheses of the study, Structural Equation Modeling (SEM) has been applied. Results of SEM analysis shows that DJ has a significant positive impact on EE (SRW=0.25;  $p < 0.05$ ), which leads to acceptance of first hypothesis

(H1) of the study. Further, PJ has a significant positive impact on EE (SRW=0.13;  $p < 0.05$ ), which supports second hypothesis (H2) of the study. Additionally, results also shows significant positive impact of RR on EE (SRW=0.43;  $p < 0.05$ ) and POS on EE (SRW=0.17;  $p < 0.05$ ) Thus, supports third (H3) and fourth hypothesis (H4) of the study. Finally, EE also reported significant positive impact on EL (SRW=0.71;  $p < 0.05$ ). Accordingly, fifth hypothesis (H5) is also supported. Detailed results are reported in Table 3.

**Figure 2: Structural Model of the Study**



**Table 3: Hypothesis Testing Results**

Hypotheses	Structural Relationships	Regression Weights	Critical Ratio	P-Value	Decision
H1	DJ → EE	0.25	3.221	0.001	Significant Accepted
H2	PJ → EE	0.13	1.935	0.033	Significant Accepted
H3	RR → EE	0.43	4.969	0.000	Significant Accepted
H4	POS → EE	0.17	2.198	0.028	Significant Accepted
H5	EE → EL	0.71	6.910	0.000	Significant Accepted

## IV. Conclusion

Substantial literature is available which support the significance of EE, however few research studies empirically explored the predictor and outcomes of EE (Bulent et al.,

2013). Further, the paper focuses on identifying the key predictors of engagement, which is essential for engaging the employee. Present research study developed theoretical model of EE for enhancing EL. Thus, the purpose of this research study is to explore the precursors of EE and examine the impact of EE on EL in Indian telecom sector.

## Theoretical Implications

The present study offered various significant theoretical aids to literature. Firstly, it explained the underlying mechanism, which explains the relationship between EE and EL. Blau's social exchange theory has been used to explain the direct relationship between EE and EL. Social exchange theory (SET) advocated that employees develop an obligation to perform optimistically for their firm if their firm offer resources to them (Blau, 1964). Employees will thus pay off their firms by engaging themselves in their work (AbuKhalifeh & Som, 2013). Such engaged employees may exchange resources socio-emotionally in the shape of deference, concern and loyalty (Aselage & Eisenberger, 2003). The study is consistent with previous research studies

which also have used SET as a theoretical framework (e.g. Saks, 2006; Schaufeli & Bakker, 2004) thus generalized SET to the telecom sector.

Second, paper examined the impact of EE on EL. Previous research studies investigated the various other consequences of EE like organization performance and employee performance (Kuruppuge & Hewa, 2017), intention to quit, job satisfaction, innovative behaviour (Kong & Li, 2018). However, very few studies have focused on the relationship between the EE and EL. Thus, the present study makes a significant contribution by investigating the impact of EE on EL. Third, the study examined the impact of different antecedents of EE like DJ, PJ, POS, RR on EE. Fourth, the study developed an integrated model, which all together examined the impact antecedents of EE on EE and impact of EE on EL.

### Managerial Implications

Result of the study offer various practical implications for managers. EE has become the best strategic measure for the success of a firm. Thus, EE should be explicitly embedded inside the Human Resource Management policy, practices and procedures (Reddy et al., 2017). Consequently, present study support the necessity amongst the Telecom players to build up and execute innovative human resources policies to cope with employee turnover, employee demands and customer demands of “seeking value for money”. Further, findings suggest that employee’s level of engagement and loyalty depends on their relationship with their supervisor, meaningfulness of their job, justice they perceive from their organization, rewards and recognition they receive at organization end. Thus, organizations wanting to develop engagement and loyalty among its employees should work hard to make an environment of trust and support in which employees feel safe physically as well psychologically and can engross themselves with no fear of negative outcomes. The result of the present study showed that RR is highest causative factor in increasing EE, therefore the telecom companies should pay more attention toward reward and recognition system and it should be reviewed time to time.

Further, results indicate that DJ has a positive influence on EE. So managers should be encouraged to be fair in distribution of rewards as well as punishments. Further, as scholars argue that employees’ perceptions of justice may be influenced by cultural differences (Khan et al, 2015) so the managers must try to manage the cultural diversity in the organization.

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# FACEBOOK AS A TOOL FOR LEARNING IN MANAGEMENT EDUCATION: WITH REFERENCE TO INDIAN B SCHOOLS

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**Purpose:** In this investigation, students from various of management streams, who were registered in MBA and using of Facebook, were studied to assess their impression of how the Facebook impacts the learning of management students and how different tools of Facebook supports learning

**Design:** This examination was conducted by author at four management institutes located in Delhi and National Capital Region (NCR). Purposive random sampling method was selected for selecting respondents. Elements depended on the two subscales created by Dabbagh & Kitsantas (2011) that were observed to be significant measures of learning: academic performance and motivation. To authenticate the tool a pilot study was conducted, the questionnaire was handed to 15 students from various management streams. A 5 scale Likert scale was used for recording students' reactions for the identified variables. Participation in the survey was with consent, and students were provided with required time to finish it. The collected data was analyzed utilizing on the SAS University edition.

**Finding:** Management students stated that Facebook reinforces learning both directly as well as indirectly and makes learning simpler. Facebook also advances long term relationships with institutes and cultivates more captivating and friendly learning conditions. Facebook also helps with creating user generated content and provides methods like content analysis.

**Originality:** These discoveries recommend that incorporation of Facebook into Management courses can be significant and relevant for learning.

**Keywords:** Facebook, e-learning, social media sites, B schools, India

**JEL classification:** D80, D83, I23, O32, O33

With the technological advancements over the past years, people has changed how they socialize with each other, with social networking sites affecting all facets of socialization and communication, from day to day updates to daily news to romancing to socializing. The youth of the today's generation grew up in this social networking influenced environment, therefore their learning are also being influenced by social networking sites and make educating more relatable to this generation students, teachers are discovering new methods of engaging students via social networking sites. The concern for faculty members is: Do social networking sites to be used as a significant support for learning?

Substantial learning in management education is hard to characterize. One of the concern pointed by (Fagerstrom & Ghinea, 2013) in their research they said there are wide variety of methods available for teaching as well as learning in management education but there is an absence of consent regarding what comprises a contemporary and effective mode for student learning center on quantitative measures, for example, number of hours spent on lectures and number of assignments and presentations conducted (Kim & Ko, 2012). Pikalek (2010), considered relationship development, who interviewed various top management faculties from various management institutes, finishes up that the top management faculties in general appreciate 'a good communication network. Spackman & Larsen (2017) found that "Learning supported by effective communication" was altogether

important for management students' psychological development. Xia, Chunling & Yujie (2012) moreover contends that great communication is what drives students to a profound method to deal with learning.

## Practical learning

Goh, Heng, & Lin, (2013) found that students had two critical approaches to prepare for their respective courses. They called these methodologies "practical learning" and "theoretical learning. Practical learning, as differentiated from theoretical learning, as referred to in the past researches as an imperative method of learning (Akar & Topcu, 2011). Practical learning had been observed to be emphatically related with the students' performance. Felix, Rauschnabel, & Hinsch (2017) claims practical learning has inherent inspiration. Management students need a practical comprehension of the subject. Rapp, Beitelspacher, Grewal, & Hughes, (2013) additionally emphasizes the role of practical comprehension, and he claims that it improves the capacity to

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understand theories and equations. He contends that students are able to do both practical and theoretical method of learning. It is the recommended and the students' knowledge and experience of the assignment would be better if both the approaches are taken.

Andersson, Hatakka, Grönlund, & Wiklund (2014) claimed that use of social media sites provide mode of practical learning for students and make their ordinary classrooms into advanced classrooms and social media sites are considered to be practical mode of learning with more effective communication (De Vries, Gensler, & Leeftang, 2012). There is an absence of effective communication in traditional mode of learning, be that way it may be rationale to have practical learning as conceptualized and operationalized in the past research (Stagno, Constantinides, & Zinck, 2011). As per Nevzat, Amca, Tanova, & Amca (2016), motivation, interaction, communication, and structured course are the four primary factors that outlines practical learning. Berthon, Pitt, Plangger, & Shapiro (2012) investigated on how practical learning could be conceptualized and operationalized. They contend that the regularities they found in how practical learning was characterized by researchers in their researches may explain it's the significance in education. Kaplan & Haenlein (2010) further proposed that effective communication and relationship management could be factors, due to which firmly practical learning giving better results. Gruzd, Staves, & Wilk (2012) claimed internet based digital platforms served following advantages with respect practical learning: 24\*7 content support, integrative learning and digital communication. They found that these factors are available on Facebook also, if considered to be a platform for practical learning for Management courses

### I. Review of Literature

#### Social media: Meaning and classification

Social media can be defined as internet based application which involves self-disclosure by registered users for the exchange of user generated content, however the two main aspects of the social media sites is self-disclosure and user generated content. By considering these two identified dimensions researchers (Kaplan & Haenlein, 2010) claimed segmentation of social media sites.

Social media theory suggests that media differ in their degree of content, which can be video, images or micro blogs, (Yamakanith, 2014). The theory holds that as range social media increases, so does the inclusion of different types of contents on a social media medium that are used for communication. Related to contents on social media is a concept known as user generated content, a theory based on

the assumption that the goal of communication is the communication and socialization between users (Ainin S. , Parveen, Moghavvemi, Jaafar, & Shuib, 2015).

By joining both of these measurements, (Kaplan & Haenlein, 2010) built up an arrangement for social media sites bringing about eight classes. In that characterization user generated content has been scaled from low to high. Self-introduction/self-disclosure has been also scaled from low to high Figure 1 demonstrates the arrangement framework for social media sites.

**Figure 1. Social media classifications**

		User generated content			
		Low			High
Self-introduction/Self-disclosure	Low	Collaborative Projects	Video content communities	Micro blogging	Image content communities
	High	Blogs	Social networking sites	Business networking sites	Review forums

*Source: Based on (Kaplan & Haenlein, 2010)'s matrix*

On the low level of the self-introduction/self-disclosure and user generated content, we have applications for example, collaborative projects (low disclosure) i.e. Wikipedia and content oriented ventures, for example, YouTube (low disclosure) since they are habitually creator based, which just permit moderately basic trades. On the low level of the self-introduction/self-disclosure and medium level of user generated content we have micro blogging sites i.e. Twitter and on the low level of the self-introduction/self-disclosure and high level of user generated content we have image based content communities i.e. Instagram. On higher level of self-introduction/self-disclosure and lower level of user generated content we have blogs i.e. personal blogging and social networking sites, for example, Facebook since they are content based. On the high level of the self-introduction/self-disclosure and medium level of user generated content we have business networking sites i.e. LinkedIn and on the level of the self-introduction/self-disclosure and high level of user generated content we have Review forums i.e. Quora. In conclusion, review forums require a larger amount of self-disclosure and user generated content than collaborative projects on the grounds that they have personal feedback that power clients to act based on their experiences.

The constraints of a model, i.e. (Kaplan & Haenlein, 2010) could be debatable. For example, an unknown user could create a fake profile on any social media site where this presented model couldn't apply. A similar contention could be made for blogging sites as to whether the creator is

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uncovering his or her actual thoughts or has picked rather to show an current point of view. In cases as these, it could be contended that a imaginary self or contrarian point of view speaks to low presentation rather than high introduction. This debate could possibly be reached out social media to the authenticity of Internet content as well as to offline mediums. For the purpose for this article, the authors have acknowledged the legitimacy of the (Kaplan & Haenlein, 2010) model.

### **Facebook usage among management students**

Today's management students are utilizing Facebook in both their personal as well as scholastic lives. Carson (2010) detailed that 90% of management students were utilizing Facebook. Past research has detailed that Facebook has been utilized to improve the student involvement via various ways including for learning, creating awareness, commitment, political and community views, entertainment, socialization, relationship management. Facebook has turned out to be universal platform for socialization, and writing from past researches demonstrates that it has been used in variety of educational fields, using its various features like Facebook live to train their students. An intriguing new trend was accounted by various management institutes: Facebook can be used as multiplatform for communication, socialization, relationship management and e-learning (Ainin S. , Parveen, Moghavvemi, Jaafar, & Shuib, 2015).

### **Facebook learning outcomes**

Research investigating learning results using social media sites in management education is progressively picking up force, most of such investigations concentrated on the utilization of Facebook for learning. A few investigations observed Facebook to be especially profitable for communication and socialization (Kao, Yang, Wu, & Cheng, 2016). There is too proof proposing that Facebook accentuating communication formulate progressive attitude toward awareness as well as academic performance (Liu, 2010). Pikalek (2010) examined Facebook, including elements like Facebook groups and pages found that it accentuates collaborative approach and also self-regulation of groups. Additionally, Nicholas & Rowlands, (2011) found that social media sites, for example, Google Docs and Survey Monkey supported students' learning as it gave students an opportunity to use Facebook for data collection and command over data. (Safko & Brake, (2012) contemplated usage of mobile devices for learning in management institutes. The usage of mobile devices included usage of social media sites such as Whats app and Facebook. They found that the combination of mobile devices and social media sites provide opportunities for association and coordinated effort and empowered students to participate in data creation. Kietzmann, Hermkens, McCarthy, & Silvestre (2011) claimed

that faculty used Facebook as platform for sharing course material and Facebook performed better than in internal course management systems those in the course learning administration framework which demonstrated progressively complex correspondence designs. However, another investigation by Hanna, Rohm, & Crittenden (2011) claimed that most of students felt that a course's material on Facebook advanced learning as it provided more convenience to them. These finding supported by what was accounted for as the constant utilization of Facebook by faculty in their teaching exercises for management courses.

Only few researches investigated results for implications of Facebook or management students' thinking process. Hajli (2016) found that Facebook as a communication platform supported students in achieving higher thinking and intellectual dimensions. Although Manzoor (2016) claimed that the content of Facebook posts utilized in a course fizzled to indicate profound and significant implications with course theories and concepts. A few investigations saw that there were advantages to student learning in management courses. Aral, Dellarocas, & Godes (2013) presumed that Facebook empowered management institutes for sharing content in a form of more professional networks.

## **II. Research Design and Methods**

### **Sample**

In this investigation, 314 students who were registered in five streams of management (i.e. marketing, finance, human resource, international business and entrepreneurship) that are regular Facebook user and using Facebook in their learning process, were invited to take an interest in the survey. Out of 314 students, 289 students responded to the questionnaire (92% feedback rate). The survey for the five courses incorporated both first year as well as second year students. Sixty seven percent (n=194) of respondents were male rest thirty three percent were female (n=95), and ninety two of respondents (n=266) were somewhere in the age of 21 and 25 years old. Students were from five distinct streams of management: marketing (29%, n=84), finance (23%, n=66), human resources (18%, n=52), international business (16%, n= 46) and entrepreneurship (14%, n=41) as shown in Table 1.

### **Research design**

This examination was conducted by author at four management institutes located in Delhi and National Capital Region (NCR). The Management institutes included in this examination recognized by University Grant Commission (UGC), the four management institutes included in the study offer management courses in various management streams i.e. marketing, finance, HR, international business and

entrepreneurship. The faculty at the selected institutes utilizes as well as educates their students via social media sites in their teaching process. Purposive random sampling method was selected for selecting respondents. A review instrument was made and modified over a number of times as per recommendations. Things depended on the two subscales created by Dabbagh & Kitsantas (2011) that were observed to be significant measures of learning: academic performance and motivation. To authenticate the tool a pilot study was conducted, the questionnaire was handed to 15 students from various management streams. These understudies were requested to point out any questions that were vague and irrational to the stud. They were additionally requested extra recommendations to enhance the questionnaire. The questionnaire was restructured based on inputs. A 5 scale Likert scale was used for recording students' reactions for the identified variables. Table 1 shows the demographic profile and usage profile of respondents.

**Table 1 Descriptive statistics [N=289]**

Items	Frequency	Percentage
<b>Management streams</b>		
<i>Finance,</i>	<b>84</b>	<b>29%</b>
<i>Marketing,</i>	<b>66</b>	<b>23%</b>
<i>Human resources</i>	<b>52</b>	<b>18%</b>
<i>International business</i>	<b>46</b>	<b>16%</b>
<i>Entrepreneurship</i>	<b>41</b>	<b>14%</b>
<b>Year</b>		
<i>First</i>	<b>178</b>	<b>62%</b>
<i>Second</i>	<b>111</b>	<b>38%</b>
<b>Gender</b>		
<i>Male</i>	<b>194</b>	<b>67%</b>
<i>Female</i>	<b>95</b>	<b>33%</b>
<b>Age</b>		
<i>21-23 years old</i>	<b>170</b>	<b>59%</b>
<i>23-25 years old</i>	<b>95</b>	<b>33%</b>

<i>25-27 years old</i>	<b>24</b>	<b>8%</b>
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Table 2 describes the social media usage pattern of the respondents; most of the respondents use social media sites for 60-120 minutes (49%) followed by 0-60 minutes (31%) while some visit their site once every week and minimal number of all are the respondents that visited their site once a month

**Table 2: Social media usage frequency**

S.no.	Measurements	Frequency	Percentage
<b>1</b>	<b>0-60 minutes</b>	90	31%
<b>2</b>	<b>60-120 minutes</b>	142	49%
<b>3</b>	<b>120-180 minutes</b>	27	9%
<b>4</b>	<b>More than 180 minutes</b>	14	5%
<b>5</b>	<b>Once in a week</b>	10	4%
<b>6</b>	<b>Once in a month</b>	6	2%

To evaluate constructive validity, the average variance extracted (AVE) for each factor meets the minimum standardized value of 0.50. The AVE for the factors ranged from 0.50 to 0.75, satisfactorily demonstrating constructive validity. Lastly, discriminate validity was evaluated by the square root of the AVE and if the discriminate validity of a factor is greater than correlation coefficients between the factors then the constructed model is considered fit to be used further statistical analysis. The square roots of the AVE for all the constructs as shown in the diagonals of Table 3 exceed the correlation estimates. The inter correlation matrix of the research variables suggests that the constructs are different from one another since the correlations are below the 0.85.

**Table 3: Statistical analysis of the compounded factors**

	<i>AVE</i>	<i>CR</i>	<i>CA</i>	<i>H1*</i>	<i>H2*</i>	<i>H3*</i>	<i>H4*</i>	
<i>H1*</i>	0.62	0.88	0.79	<b>0.787**</b>				
<i>H2*</i>	0.66	0.89	0.72	0.568	<b>0.812**</b>			
<i>H3*</i>	0.71	0.84	0.83	0.287	0.302	<b>0.842**</b>		
<i>H4*</i>	0.59	0.81	0.89	0.189	0.196	0.659	<b>0.768**</b>	
<i>H5*</i>	0.89	0.72	0.568	0.899	0.627	0.881	0.798	<b>0.545**</b>

**Note:** *AVE*=Average variable extraction, *CR*=Compound reliability, *CA*=Cronbach's alpha,

*H1\**= e-CRM, *H2*=e-learning, *H3*= e-CRM in Management education *H4*= e-learning in Management education

\*\*The diagonal elements (bolded) represent the square root of AVE values and describe the discriminate validity of the factors  
Source: Author's compilation

**Findings**

Table 4 demonstrates students' general impression of Facebook demonstrating that the Facebook had made education easier, assisted students to learn fast, hold data well,

permitted them to better skills and upgraded their confidence level.

Furthermore, the results illustrate that utilization of Facebook upgraded the traditional method of teaching, students'

engagement in assignment, and upgraded their capacity to collaborate and coordinate with different and students teacher

**Table 4: Students' perceptions for Facebook [N=289]**

Variables	Strongly agree	Agree	Don't know	Disagree	Strongly disagree	Mean	Std. Dev.
Facebook made learning easier	155	63	2	59	10	3.53	0.67
Facebook made learning fast	98	20	14	83	74	3.54	0.53
Facebook helped me to retain the data	99	73	15	34	68	3.18	1.04
Facebook helped me to gain new skills	102	41	39	17	90	2.98	0.98
Facebook improved my confidence level	73	87	34	54	41	2.28	0.57
Facebook helped to traditional assignments	125	45	23	65	31	3.34	1.09
Facebook improved level of enjoyment working on assignment	109	54	32	29	65	2.87	0.95
Facebook improved level of engagement in assignment	121	43	27	48	50	2.56	0.45
Facebook improved collaboration with other students	112	31	39	27	80	3.15	1.45
Increased ability to connect with faculty	115	55	33	55	31	2.76	1.10

**Facebook learning: Communication**

Table 5 presents results identified with Facebook learning for improving communication. Students were asked whether Facebook helped students to analyze information from different perspectives. Facebook helped the students to get aware and informed about course idea, concepts and course

materials which helped them in developing new themes and conclusions. Students were asked do Facebook provide them new information sources to collect information and reach conclusion. Then implications of Facebook on professional problems were enquired followed by how Facebook helped students to improve their communication with their faculty.

**Table 5: Students' using Facebook for communication [n=289]**

Variables	Strongly agree	Agree	Don't know	Disagree	Strongly Disagree	Mean	Std. Dev.
<b>H1:</b> Facebook helped me to analyse information from different perspectives	132	79	9	39	30	2.62	0.67
<b>H2:</b> Facebook assisted me to share about course ideas and concepts in new themes and conclusions	108	19	4	74	84	2.64	0.62
<b>H3:</b> Facebook provide new data sources to collect	85	67	13	51	73	2.18	1.04
<b>H4:</b> Facebook teach me to apply subject ideas in professional complications	96	59	31	32	71	2.98	0.98
<b>H5:</b> Facebook inspired me to discuss course problems with faculty	62	68	29	74	56	2.28	0.67

**Facebook: Relationship management**

Table 6 presents results identified with Facebook learning for improving relationship management. Students were asked whether Facebook helped them to connect various people of my institute and Facebook encouraged them to enhance their communication network. Then students were enquired about

how Facebook helped me in career guidance and how Facebook helped me reminding my assignments. Then students were asked about how Facebook impacted the real-life experience of the students and how Facebook enthused them to discuss course in society.

**Table 6: Students' perceptions for Facebook**

Variables	Strongly agree	Agree	Don't know	Disagree	Strongly disagree	Mean	Std. Dev.
Facebook helped me to connect various people of my institute	103	45	27	89	25	3.53	0.67
Facebook encouraged me to enhance my contacts	35	95	12	53	94	2.34	1.03
Facebook helped me in career guidance	71	52	35	54	77	2.45	0.94
Facebook helped me reminding my assignments	95	62	19	32	81	3.14	0.89
Facebook provided me real-life experience	74	43	23	108	41	2.79	1.34
Facebook Inspired me to promote course ideas with friends, family or other students	105	53	25	75	31	3.03	0.56

**Facebook learning: Practical learning**

Table 7 indicates results identified with practical learning. Students agreed that Facebook exhilarated them to think about pros and cons of their own opinions on a topic or issue and exhilarated them to conceive how an matter could look from others' perspective, reformed how they analyze a subject, also

Facebook included discussions with clear and simple answers, helped me to apply what I have learned in the course to my personal life or work and Facebook made projects more appealing and entertaining to complete; not concurred that Facebook required a lot of thoughtful and mental effort.

**Table 7: Facebook learning: Practical learning**

Variables	Strongly agree	Agree	Don't know	Disagree	Strongly disagree	Mean	Std. Dev.
Facebook encouraged me to think about pros and cons of my own views on a topic or issue	134	63	12	69	11	3.23	0.94
Facebook encouraged me to visualize how a matter looks from other's perspective	85	65	29	61	49	3.45	0.76
Facebook reformed how I analyse an subject or concept	87	93	15	24	70	3.18	1.04
Facebook included discussions with clear and simple answers	102	41	39	17	90	2.98	0.45
Facebook helped me to apply what I have learned in the course to my personal life or work	73	87	34	54	41	2.28	0.57
Facebook needed a lot of thoughtful and mental effort	25	55	32	53	124	1.87	0.78
Facebook made projects more appealing and entertaining to complete	154	43	12	12	68	2.87	0.95

**Hypothetical testing**

The hypothesized relationships were tested using multiple regression analysis. First of all a correlations matrix was developed to understand the relationships between review variables. Considering the correlation matrix, H1: Facebook helped me to analyze information from different perspectives (0.6437), H2: Facebook assisted me to share about course ideas and concepts in new themes and conclusions (0.5684), H3: Facebook provide new data sources to collect (0.6321), H4: Facebook teach me to apply subject ideas in professional complications (0.5972), H5: Facebook inspired me to discuss course problems with faculty (0.6832), then 4 models were created where independent variables which were entered into the equation using "Stepwise" method" which were derived

from literature review. A five point Likert scale was designed to record responses with respect to the mentioned key variables then the entire collected data is coded to SAS for multiple regression analysis to check the validity of the mentioned hypothesizes. Following are the models testing hypothesis:

**H1: Model 1**

The hypothesized model for Facebook as learning tool is represented in **Table 8**, the p values in the table is less than 0.0001, F vaue (27.19) and Adjusted R<sup>2</sup> (0.4043) which is acceptable, therefore all the estimated coefficients are statistically significant.



Variable	DF	Parameter Estimate	Standard Error	t Value	Pr >  t
Facebook made learning easier	1	1.44805	0.39727	3.65	<.0001
Facebook made learning fast	1	-0.57522	0.09293	-6.19	<.0001
Facebook helped me to retain the data	1	-0.01890	0.12204	-0.15	0.8770
Facebook helped me to gain new skills	1	-0.01823	0.06266	-0.29	0.7713
Facebook improved my confidence level	1	0.38823	0.08940	4.34	<.0001
Facebook helped to traditional assignments	1	0.60040	0.05759	10.43	<.0001
Facebook improved level of enjoyment working on assignment	1	-0.43391	0.16875	-2.57	<.0001
Facebook improved level of engagement in assignment	1	-0.14157	0.05382	-2.63	<.0001
Facebook improved collaboration with other students	1	-0.14535	0.05862	-2.48	<.0001
Increased ability to connect with faculty	1	0.00557	0.03619	0.15	<.0001

#### Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	10	230.75308	23.07531	27.19	<.0001
Error	279	245.24692	0.84861	Depd.Mean 2.000000	R-Square 0.4156
Corrected Total	289	476.00000	Root MSE 0.92120	CoeffVar 46.05989	Adj R-Sq 0.4043

#### H2: Model 2

The hypothesized model for Facebook as learning tool in Management education is represented in **Table 9**, the p values

in the table is less than 0.0001, F value (10.51) and Adjusted R<sup>2</sup> (0.4669) which is acceptable, therefore all the estimated coefficients are statistically significant.

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr >  t
Intercept	1	4.05830	0.52895	7.67	<.0001
H1: Facebook helped me to analyse information from different perspectives	1	-0.26054	0.13216	-1.97	<.0001
H2: Facebook assisted me to share about course ideas and concepts in new themes and conclusions	1	-0.60533	0.17259	-3.51	<.0001
H3: Facebook provide new data sources to collect	1	-0.14801	0.08545	-1.73	<.0001
H4: Facebook teach me to apply subject ideas in professional complications	1	0.40134	0.10584	3.79	<.0001
H5: Facebook inspired me to discuss course problems with faculty	1	-0.27593	0.08549	-3.23	<.0001

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	10	230.75308	23.07531	10.51	<.0001
Error	279	245.24692	0.84861	Depd.Mean 2.000000	R-Square 0.4848
Corrected Total	289	476.00000	Root MSE 0.92120	CoeffVar 46.05989	Adj R-Sq 0.4669

### H3: Model 3

The hypothesized model for Facebook as a mode of communication is represented in **Table 10**, the p values in the

table is less than 0.0001, F value (19.15) and Adjusted R<sup>2</sup> (0.4730) which is acceptable, therefore all the estimated coefficients are statistically significant.

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr >  t
Intercept	1	1.91540	0.44141	4.34	<.0001
Facebook helped me to connect various people of my institute	1	-0.08062	0.10451	-0.77	0.4411
Facebook encouraged me to enhance my contacts	1	-0.22818	0.13086	-1.74	0.0823
Facebook helped me in career guidance	1	-0.08457	0.06689	-1.26	0.2072
Facebook helped me reminding my assignments	1	0.24409	0.10078	2.42	0.0161
Facebook provided me real-life experience	1	0.04798	0.07342	0.65	0.5139
Facebook Inspired me to promote course ideas with friends, family or other students	1	-0.58796	0.18147	-3.24	0.0013
Facebook helped me to connect various people of my institute	1	-0.04035	0.05771	-0.70	0.4850
Facebook encouraged me to enhance my contacts	1	-0.14102	0.06409	-2.20	0.0286
Facebook helped me in career guidance	1	0.04521	0.04002	1.13	0.2595
Facebook helped me reminding my assignments	1	0.30515	0.06362	4.80	<.0001

### Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	10	97.07316	8.82483	19.15	<.0001
Error	279	277.84350	0.96473	Depd.Me an1.6833 3	R- Square 0.4889
Corrected Total	289	374.91667	Root MSE 0.98221	CoeffVar 58.34905	Adj R-Sq 0.4730

### Exhibit 7 Results for Brand loyalty based on Frequent updates on Social Media

### H4: Model 4

The hypothesized model for Social media (Popular contents with friends) and brand loyalty is represented in **Table 11**, the p values in the table is less than 0.0001, F value (26.13) and

Adjusted R<sup>2</sup> (0.4804) which is acceptable, therefore all the estimated coefficients are statistically significant.

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr >  t
Intercept	1	-0.11503	0.66441	-0.17	0.8627
Facebook encouraged me to think about pros and cons of my own views on a topic or issue	1	-0.53158	0.09296	-5.72	<.0001
Facebook encouraged me to visualize how a matter looks from other's perspective	1	-0.11629	0.12504	-0.93	0.3531
Facebook reformed how I analyse an subject or concept	1	-0.01588	0.06187	-0.26	0.7976
Facebook included discussions with clear and simple answers	1	0.35809	0.08887	4.03	<.0001
Facebook helped me to apply what I have learned in the course to my personal life or work	1	0.58694	0.05704	10.29	<.0001
Facebook needed a lot of thoughtful and mental effort	1	-0.17781	0.18835	-0.94	0.3459
Facebook made projects more appealing and entertaining to complete	1	-0.14088	0.05314	-2.65	0.0085
Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	10	237.77966	21.61633	26.13	<.0001
Error	279	238.22034	0.82715	Depd.Me an2.0000 00	R- Square 0.4995
Corrected Total	289	476.00000	Root MSE 0.90948	CoeffVar 45.47400	Adj R-Sq 0.4804

### III. Results and Discussion

Most of the management scholars use Facebook on regular basis while pursuing their management courses. Students revealed regular utilization of Facebook recommends better engagement with management institutes. Moreover, most students report a high ease while utilizing Facebook. The results are similar to the past research. Gallagher & Ransbotham (2010) claimed that individuals join Facebook for their personal communication and socialization. Maybe it is the acceptance of Facebook had prompted such an encouraging reaction to its practice for the management courses too. Utmost students claimed that Facebook made adapting easier as well as boost their confidence while improving their learning, communication, and socialization. Utilizing Facebook has the additional advantage of divulging students to digital tools that they could be later used in their professional lives. The writing demonstrates that Facebook tools are developed to be used in professional environment.

The data plainly demonstrates that majorly students felt that Facebook help them to professionalize their learning. Over each of the three subscales (Communication, Relationship management, Practical Learning), students agreed that the

Facebook had positive affect on them. Considering the evaluations of agreed students, the percent of students who approve that Facebook improved their communication ranges from 65– 72%, for relationship management 63– 75%, and lastly for practical learning 60– 81%. Students' view of Facebook usage for learning was to a great extent lined up with the past researches, particularly in communication and practical learning subscales. The findings propose that students who are generally friendly utilizing Facebook report the positive association to communication and relationship element of Facebook. While comfort utilizing Facebook was found to positively relate with observations of practical learning.

#### Limitations and further research

This exploration has a few constraints. Since our sample size was small and restricted to limited management courses only, author couldn't break down the data by order or analyze first year set against second year students' responses. These components ought to be investigated in future explore. In case the exploration model would be further utilized, it would be

captivating to include group of students from management courses who haven't registered to Facebook.

#### IV. Conclusion

In this examination included students from five different disciplines of management, registered to Facebook and utilizing it few times every week for class assignments. Students felt that Facebook encourages practical learning via improving the communication as well as relationship management both directly as well as indirectly and makes learning more professional, advances long haul preservation of course material in form in content and also encourages an additionally captivating and friendly learning condition. If management institutes also entitled to rejuvenate its way to deal with instructing and emphasis on inspiring corporate needs and dynamic environment, usage for digital platforms to deal with learning might be the solution. Since students are believed both communication and relationship management are important elements for professional learning thus faculty must plan learning exercises that support every one of the angles of professional learning. As this examination finds, including usage of into management schools can strengthen every one of the three subscales related with management courses' learning.

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# THE IMPACT OF INTELLECTUAL CAPITAL, KNOWLEDGE MANAGEMENT ON FIRM PERFORMANCE IN THE CONTEXT OF MALAYSIAN SMEs

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**Purpose:** The main purpose of this conceptual paper is to review the impact of two (2) main components of intellectual capital, which are (human capital and structural capital) and knowledge management, on the performance of manufacturing SMEs operating in Malaysia.

**Design/ Methodology:** The paper's framework was developed based on a systematic review of past literature which has not been tested yet. The present conceptual paper suggests future researchers to test the present framework in the manufacturing sector in Malaysia using a quantitative approach.

**Findings:** The present paper found the important influence of the study's variables on firm performance. However, a deep understanding provided of how three (3) variables affect SMEs' performance in Malaysia.

**Originality:** The paper emphasizes the critical value of intellectual capital and knowledge management for SMEs owner/managers consideration when acting on behalf of their company; failing which the SMEs could experience poor performance. Resource-Based view (RBV) and knowledge-based view (KBV) theories was used to underlie the conceptual framework. In addition, come implications of this conceptual model for theory and practice are discussed.

**Keywords:** Intellectual Capital, Human Capital, Structural Capital, Knowledge Management, SMEs, Firm Performance

**JEL Classification:** M310, M390, M500

As Asian countries have become increasingly influential in the global economy, Small and Medium Enterprises (SMEs) play a significant role in enhancing these countries' financial growth (Budhwar, Varma & Patel, 2016). SMEs are non-subsidiary, independent firms, where number of staff and extent of financial assets are the distinguishing features. SMEs are distinguished from larger organizations by their reactive, budget constraints, informal approaches, and versatile systems (Jabbour, Ndubisi & Seles, 2020). SMEs are essential to achieving and maintaining growth and success across Asian countries and are crucial to these countries' competitive potential (Ndubisi, Zhai & Lai, 2019). SMEs are recognized as one of the most significant contributors to financial development in creating nations, for instance, Malaysia (Abd Aziz & Samad, 2016). SMEs are a critical part of Malaysia's economic sector; however, the GDP contribution is declining; which necessitates this research. According to the Department of Statistics, Malaysia (DOSM), the GDP of SMEs increases steadily in 2015. Similarly, the GDP increased to 6.2% over the 2016-2018 period, which was higher than the overall annual price growth of 5.0% of real GDP (SME Corp, 2018). SMEs significantly contribute to job creation and distribution of income, reducing poverty, which strengthens environmental sustainability in Asian developed countries (Ndiaye, Razak, Nagayev & Ng, 2018). Moreover, SMEs play an essential role

in improving entrepreneurship skills, creativity, and job growth. The World Bank Group (2015) announced a structured contribution of up to 45% from SMEs to Gross Domestic Product (GDP). SMEs also play an important role in economic development, such as social upliftment and political stability (Ghazilla, Sakundarini, Abdul-Rashid, Ayub, Olugu & Musa, 2015). However, SMEs faced many challenges despite their ability to contribute towards Malaysian GDP. The SME's

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contribution to the country's GDP is comparatively low compared to other emerging countries (Satiman, Abu Mansor & Zulkifli, 2015). SME's contribution towards the country's GDP was only at 32.7%, which led to the Malaysian SMEs' performance (SME Corp, 2018). Numerous studies have investigated the challenges faced by Malaysian SMEs (Satiman *et al.*, 2015). Therefore, more research is needed to explore elements that could increase GDP contribution and improve SMEs' overall firm performance in Malaysia (Halim, Malim, Derasit, Rani & Rashid, 2017; Satiman *et al.*, 2015). Likewise, amongst these challenges faced by Malaysia's SMEs, concerns about the survival during the recession time, low productivity, poverty, regional trade, enterprise networks, and insufficient managerial characteristics, while firm sources formed a barrier to global sourcing for SMEs. Moreover, the global challenges also have affected the SMEs' owners (Ghazilla *et al.*, 2015). SMEs sectors in Malaysia had a steady GDP growth from the year 2014 to 2018, except for the manufacturing sectors. Compared with other SME sectors such as service or construction, manufacturing SMEs face a serious issue regarding GDP contribution, which declined from 21.7% in 2014 to 20.0% in 2018 (SME Corp, 2018). Since manufacturing SMEs are considered the second-largest contributor toward the nation's GDP, it is regarded as an important sector in the country's economy. The declining issue has a significant impact on the overall economy and their decline in Malaysia.

## I. Review of Literature

### Firm Performance

Firm performance is a conceptual model used to measure individual and collective activities (Corvellec, 1997). Moreover, firm performance is described in the context of SMEs as the ability of businesses to lead in the loss of employment, as well as their ability to survive and maintain long-term viability (Civelek, Çemberci, Artar & Uca, 2015). The most appropriate strategy to measuring performance is complicated, and researchers have focused their attention on different aspects of it (Gupta & Wales, 2017). Furthermore, based on previous empirical studies, there are several metrics to assess firm performance, various researchers suggested that firm performance measures the level of success of the task's strategic goals and is also an indicator of the overall competitive advantage of the undertaking. An accurate evaluation of firm performance gives the manager an appreciation of the firm's status. However, some researchers see performance as outcomes, such as financial success over a specified period. Meanwhile, others agreed that performance, as the determinant of these outcomes, is based on and considerations such as efficiency, accountability, flexibility, and creativity, while the importance of corporate governance

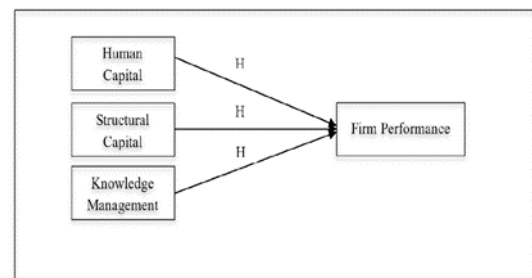
and collaborations is addressed for a third group (Pedro, Leitão & Alves, 2018).

Moreover, the companies' success is reflected by the anticipated benefits obtained from intangible resources utilized in their business activities (Kengatharan, 2019). Similarly, it is widely argued that business success is driven mainly by various indicators such as the effective use of human capital and structural capital (Ahmed, Guozhu, Mubarik Khan & Khan, 2019). Hence, the company's success in the industry would be achieved with improved profitability. Past studies also acknowledge that firm performance is mainly determined by internal and external factors such as tangible assets, competition, infrastructure, technology, and intangible assets such as intellectual capital (Kengatharan, 2019) and knowledge management (Ferraris, Mazzoleni, Devalle & Couturier, 2019).

## II. Research Design and Methods

Design and layout were previously known to be one of the firms features in previous studies, however, the manufacturing industry's physical environment includes its system design and layout (Rehman, Bhatti & Chaudhry, 2019). The design/layout of an atmosphere assists customers in orienting themselves, learning and finding their way around signs, and gaining personal feelings and influence (Bitner, 1992). Hence, certain features, influence customer's attitude towards products providers in the production settings (Bitner, 1992). Furthermore, this conceptual paper was developed through a systematic literature review. Moreover, the literature review was synthesized based on scholarly literature pertaining to two (2) dimensions of intellectual capital (human capital and structural capital) as well as knowledge management and its impact on firm performance as it shows in (Figure 1).

Figure 1: Conceptual Framework



The present conceptual paper will develop three (3) hypotheses to test the relationship of the variables toward firm performance. Moreover, future researcher can have used quantitative approach (survey based) to collect the study data. Similarly, two underpinning theories, resource-based view and



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knowledge-based view theories were utilized to underpin the research framework. The conceptual paper process went through a rigorous, standardized methodology for conducting a systematic review. The proposed conceptual framework may have tested empirically using the quantitative method in the future.

### **Human Capital and Firm Performance**

One of the most significant intellectual capital components is human capital (Hameed & Anwar, 2018). Earlier literatures defined human capital as an employee's knowledge, skills, talents, and competence (Becker, 1964). Human capital refers to the expertise, understanding, and knowledge of experts or representatives imparted to their organization with a clear goal to gain recognition (Andreeva & Garanina, 2016). Several researchers have been investigating the significant role of human capital, which shows a noticeable positive influence on firm performance (Khalique & Pablos, 2015; Khalique, Shaari & Isa, 2014). According to Muda and Rahman (2019), people are the corporations' key profit-generators. Employees are gaining significance as drivers of company interest by increasingly making meaningful individual contributions from time to time available to businesses. According to Pink-Harper (2015), human capital focused on educated people, which leads to positive economic growth and development, it positively affects the country's economy overall. Previous researchers have widely recognized that human capital constitutes a critical component of firm performance (Dzenopoljac, Yaacoub, Elkanj & Bontis, 2017). However, past empirical study shows that companies with unique or implicit human capital experience greater business efficiency and sales profitability (Staniewski, 2016). Therefore, with growing awareness towards the intellectual capital globally, human capital has become a critical factor in the long-term process for the firm's objectives of firm performance. According to Tastan and Davoudi (2015), human capital and firm performance are highly correlated and based on Cisneros and Hernandez-Perlines (2018), human capital has a positive effect on financial performance; it increases sales and reduces firms' costs. An organization with productive employees can obtain a positive implication of human capital on business performance. Past empirical studies found a positive relationship between human capital and firm performance (Asiaei & Jusoh, 2017; Gogan, Artene, Sarca, & Draghici, 2016; Scafarto, Ricci & Scafarto, 2016). Moreover, human capital can improve financial outcomes as creative workers will discover new ways to raise sales profits and reduce costs. Moreover, human capital can improve economic outcomes as creative workers will find new ways to increase sales profits and reduce costs. Therefore, a firm with a high standard of human capital would help the firm

be more creative in coming up with new capabilities and ideas that supported the firms or market needs and eventually will improve the firm performance. However, Bin Shaari, Isa and Khalique (2018), stated in their studies a negative relationship of human capital towards firm performance and suggested to re-examine this relationship in same or other sector as their results might be different in other sectors since their studies was limited in ICT SMEs in Malaysia. Similarly, Khalique, Bontis Shaari, Yaacob and Ngah (2018), suggested that more research is needed on the relationship between human capital and firm performance to have deeper understanding on the influence of human capital against firm performance. Hence the following hypothesis was developed:

**H<sub>1</sub>:** Human capital has a positive relationship with firm performance.

### **Structural Capital and Firm Performance**

Bontis (1999) defined structural capital as the non-human storehouse of knowledge in the organization. However, structural capital includes the motivating structures which enable the organization to leverage scholarly resources (Zangouinezhad & Moshabaki, 2009). Organizations with reliable structural capital should have a strong culture that encourages their members to generate new ideas (Hameed & Anwar, 2018). Through investing in structural capital, businesses may improve their work practices or systems, thus it will be increasing the quality of production/service, promoting collaboration, addressing productivity and solve performance issues (Wang, Liang, Wang & Xiang, 2018). When a company emphasizes the role of structural capital in creating and executing market plans, it will benefit from improved knowledge gathering, processing, communication, and technology infrastructure. Hence, their desire to do the right thing in the right manner is slowly strengthened. It would lead to higher efficiency, lower costs, and more knowledge, which can eventually lead to business success (Aramburu & Saenz, 2011). Also, structural capital will include guidance to prevent unnecessary actions in the value development process, aiming to achieve the optimal efficiency and growth of the employee revenue generated (Wang *et al.*, 2018). A business with strong structural capital will achieve superior firm performance through a powerful process using advanced technology in the production of a product/service including a wealth of knowledge stored in an information system and converted into valuable resources. Some skills, such as structural capital and technology integration skills, are inalienable, regardless of intellectual capital potential (Asiaei, Jusoh, and Bontis, 2018). By developing new ideas and identifying opportunities to re-establish company processes through structural capital, such unique organizational abilities and expertise can increase the probability of achieving firm performance goals. Various empirical studies also found that

structural capital has a positive relationship with firm performance (Abdullah & Sofian, 2012; Cleary & Quinn, 2016; Gogan *et al.*, 2016; Hameed & Anwar, 2018; Palazzi, Sgrò, Ciambotti & Bontis, 2020; Wang *et al.*, 2018; Xu, Shang, Yu & Liu, 2019). According to Khalique *et al.* (2018) there are various studies that has been examined the impact of structural capital toward firm performance, but only a few of them focusing on the financial performance. Despite this, structural capital has received little attention in recent research. Simultaneously, it is a major aspect since it smoothest and speeds up the production processes of new goods, resulting in improved performance (Hameed & Anwar, 2018). However, Bin Shaari *et al.* (2018), suggested future studies to further investigate the relationship between structural capital and firm performance generalize the current finding worldwide. Khalique *et al.* (2018) stated that more research is needed to test structural capital's impact on firm performance. Hence the following hypothesis was developed:

**H<sub>2</sub>:** Structural capital has a positive relationship with firm performance.

### **Knowledge Management and Firm Performance**

The principle of knowledge management is complex. Since knowledge occurs in human understanding, it can often be conveyed or not readily understood by others because the information is strongly interpreted and personalized. In order to create and maintain sustainable competitive advantages in the sectors in which they operate, adequate KM would have the potential to collaborate so that companies can create and maintain sustainable competitive advantages in the sectors in which they operate while attempting to produce value (Novas, Alves, and Sousa, 2015). However, in the present paper, knowledge management is an intangible asset to the firm. It is a mechanism in which information is stored, managed, distributed, and applied such that the enterprise can use it safely and successfully in the future. Knowledge management involves the company's processes of gaining new knowledge, transforming knowledge into a functional and readily available process, and integrating that knowledge in an organization (Gasik, 2011) to affecting firm performances (Ferraris *et al.*, 2019). Firm performance depends on an organization's capacity to store, execute, and innovate knowledge, while the connection between knowledge management and firm performance is significant (Al-Hakim & Hassan, 2016). Moreover, in this context, knowledge management (KM) becomes a useful strategic resource for individuals and businesses achieving human, operational, and managerial excellence, making it simpler to achieve the strategic objectives set out in business initiatives while reducing the associated risks (Jordão & Souza, 2013). According to Costa, Soares, and Sousa (2016). even though company collaboration has been

seen as a significant facilitator of KM processes in SMEs, specially in terms of exchanging information and expertise in internationalization choices.

The past empirical findings showed that knowledge management and relationship management affected the potential for business innovation in the studied SMEs, resulting in improved company performance. Based on past empirical evidence, Alaarj, Abidin-Mohamed, and Bustamam (2016) found that knowledge management has a positive relationship between knowledge management and firm performance. Moreover, the recent statement with knowledge management experts revealed that one of the critical barriers remains the lack of awareness between knowledge management and firm performance. Nevertheless, knowledge management practices are unknown to both researchers and practitioners, while it will also sustain and drive company productivity by acquiring, integrating, and applying knowledge in an organization (Czarnitzki, & Wastyn, 2009). Entrepreneurs will provide knowledge to members of the organization at the right time. Members of the organization can only obtain the most significant learning outcomes as they acquire knowledge related to their knowledge (Yu, Shang, Wang & Ma, 2019). However, Rehman *et al.* (2019) suggested that more research is needed to test the impact of knowledge management on firm performance as the relationship between them still uncertain. Hence the following hypothesis was developed:

**H<sub>3</sub>:** Knowledge management has a positive relationship with firm performance.

### **Underpinning Theories**

Resource-based view theory claimed that tangible and intangible resources within the organization could be used successfully to improve firm efficiency (Barney, 1986; Wernerfelt, 1984; Zimmerling, Purtik & Welpé, 2017). In the mid-1980s, Wernerfelt (1984) established the RBV theory as an enhancement to the previous authors such as Barney (1986) to clarify the theory. Most organizations recognize the fundamental principle of RBV. Furthermore, a business seeks to reduce manufacturing costs to gain a sustainable competitive advantage. Muda and Rahman (2019) argued that RBV is the most used theory in intellectual capital research. Waseem, Loo-See, Adeel, and Riaz (2018), stated that companies with enhanced, unique, inimitable resources, and capabilities will have a better chance of enhancing outcomes as a result of the comparative advantage obtained by higher intangible intellectual capital (Ahmed *et al.*, 2019; Cisneros & Hernandez-Perlines, 2018). The knowledge-based view theory (KBV) is used to define situations in which cooperation between organizations is superior to either competition or hierarchical governance in the effective use and incorporation of professional knowledge (Grant, 1996a). Firms create, obtain,

and deliver knowledge from one knowledge perspective to another as a strategic tool to gain competitive advantage and achieve superior efficiency (Grant, 1996a, 1996b). Knowledge-Based View (RBV) posited that a company's operational resources, also known as critical knowledge, are exploited to gain competitive advantage and produce superior output. In other words, the hypothesis indicates that knowledge management plays a significant role in the operation of firms. Knowledge-based perspective goes deeper and demonstrates the vital influence of knowledge management on organizational success (Kogut & Zander, 1992). The company's knowledge-based view characterizes an organization as a set of resources and views it as the foundation for a business's strategic advantage. However, based on the knowledge-based view, the company views knowledge as a distinctly unique resource (Kogut & Zander, 1992). Hence, it views the company as a flexible, evolving, semi-autonomous knowledge generation and utilization system (Medsker, Williams & Holahan, 1994).

#### **Resource-Based View Theory and Human Capital**

Empirical human capital scholars have used diverse theoretical contexts to help research frameworks such as knowledge-based view theory (Iqbal, Latif, Marimon, Sahibzada & Hussain, 2019), contingency theory (Kamaluddin, Arshad, Hasan & Abu Samah, 2016), strategic management and leadership theory (Fu, Ma, Bosak, & Flood, 2016). Nonetheless, most of the studies conducted in the intellectual capital field have adopted the resource-based view theory RBV (Ahmed *et al.*, 2019; Kengatharan, 2019; McDowell, Peake, Coder & Harris, 2018; Waseem *et al.*, 2018). RBV theory has received greater recognition from intellectual capital researchers. Based on RBV theory, businesses with unique and inimitable assets would have the capability to use these tools to improve the growth of human capital (Ahmed *et al.*, 2019). According to Kengatharan (2019), human capital characteristics are (valuable, unique, inimitable, and unsubstituted), moreover, the need for such resources in a business is also fundamentally important. Moreover, Radenović and Krstić (2017) argued that companies require intangible resources, such as human capital, to create a new product or service. Hence, RBV is the most suitable theory to investigate the impact of human capital on firm performance (Ahmed *et al.*, 2019; Kengatharan, 2019; Waseem *et al.*, 2018). Hence, for firms to have a sustainable competitive advantage, resources or combined resources which will remain secured to have an easy accessibility in the open market.

#### **Resource-Based View Theory and Structural Capital**

Structural capital is one of the intellectual capital components to obtain business opportunities that will offer strategic advantages and superior results (Asiaei & Jusoh, 2017; Cisneros & Hernandez-Perlines, 2018). According to Gogan *et al.* (2016), structural capital is one of the intangible assets held

by businesses that if used effectively to produce goods or services, would be capable of creating a competitive advantage that will result in high firm performance. The rate of structural capital invested in companies to produce exclusive, inimitable, unique goods would decrease the costs incurred and increase the overall productivity (Asiaei & Jusoh, 2017; Khalique *et al.*, 2018). Furthermore, structural capital is a valuable, rare, inimitable, and irreplaceable resource, which can be a significant source of competitive advantage that leads to a high business success (McDowell *et al.*, 2018; Wernerfelt, 1984). Additionally, the efficient use of structural capital resources would help companies to reduce costs, create efficient processes or procedures, increase product design efficiency, and eventually boost production performance (Hameed & Anwar, 2018).

#### **Knowledge-Based View Theory and Knowledge Management**

The incorporation of knowledge is a focal point of the firm's knowledge-based theory. The firm's knowledge-based theory indicates that the main reason for the company's success is its superior capacity to combine several knowledge streams for the adaptation of current knowledge to activities and the development of new knowledge (Grant, 1996a). According to the knowledge-based view (KBV) theory, businesses operate because they have more effective ways of handling knowledge-intensive activities than is feasible by business transactions. Hence, understanding the significance of knowledge systems has been considerably enhanced regarding the creation of corporations and the predictors of their limits (Conner, 1991; Grant, 1996a).

Despite certain similarities and limited targets, the company's knowledge-based theory remained very complex literature. Some efforts highlighted the efficiency of businesses in utilizing current expertise, while others have shown their strength in modern knowledge production (Kogut & Zander, 1992). Previous researchers highlighted their role in promoting professional knowledge through various communities, where lack of shared experience makes it difficult to exchange knowledge (Grant, 1996a; Nickerson & Zenger, 2004).

Many approaches to (KBV) theory believed that a core aspect of knowledge was its degree of "tastiness," the depth to which it was expressed and enforced. (Grant, 1996b). A firm's knowledge-based approach analyzes how organizations are creating, acquiring, applying, protecting, and transferring knowledge. However, Bierly and Chakrabarti (1996) believed that a firm's knowledge and capacity to improve would produce competitive advantages.

#### **Design/methodology/approach:**

Systematic review was conducted by four (4) reviewers who focus on the acquisition and synthesis of information blindly

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and in tandem. Moreover, in order to mitigate prejudices and remove obsolete or low-quality research, the analysis methodology was well-developed. Systematic review begins with a proper formulation of the research question, followed by the implementation of a procedure. Furthermore, in a systematic review approach, it is important to do a thorough and complete literature review. As a consequence, we'll have access to all possible reports, even those that are particularly pertinent to our job. That is why literature review must be comprehensive, factual, and repeatable; these three (3) characteristics are what set a Systematic review apart from a traditional narrative analysis. Following the selection of studies an accurate, comprehensive, and systematized compilation of all knowledge provided in each published paper was discussed.

### III. Results and Discussion

The conceptual paper was built using a comprehensive analysis of journal papers, proceedings, conferences, and books relevant to the keywords and study field. The following theoretical structure was developed based on the scope of the literature review and study discrepancy (Figure 1.0).

Based on the literature review; past studies mostly found that intellectual capital and knowledge management has a positive influence on firm performance. Thus, when the intellectual capital and knowledge management activities increase; this will also improve the Manufacturing SMEs firm performance.

#### Integrative Framework

Previous studies suggest that IC plays a critical role in SMEs, which are usually characterized by a lack of resources, according to Verbano and Crema (2016). SMEs should concentrate on intellectual capital (and its constituent aspects) as a method to overcome their scale-related limitations and produce recognizable strategic value. However, in this sort of organization, a number of variables might contribute to the development of IC as well as the creation, systematization, and sharing of knowledge especially in manufacturing sectors. The manufacturing formation process of SMEs, the organizational context of such companies and their networks, the competitive strategies of SMEs and/or networks, and SMEs values sharing of knowledge inside and outside the SMEs are among the main factors highlighted by the literature as more significant.

In recent years, there has been a major increase in non-physical factors research in Malaysian manufacturing industries, especially in SMEs. Consequently, manufacturing industries are growing in numbers throughout globally and fortunately, this is fastest growing industries among other industries, which overlooked by researchers. In fact, majority of the studies look at the intellectual capital and knowledge management in the

Malaysian SMEs are mainly focused on service sectors ignoring other sectors that has a significant contribution to the country's GDP (Khalique *et al.*, 2018).

Moreover, this conceptual paper demonstrates the importance of intellectual capital and knowledge management toward SMEs' performance in Malaysia. The present conceptual paper will contribute to the body of knowledge in the management field, specifically intellectual capital, and knowledge management relationships on firm performance. This paper could help owner/managers of manufacturing SMEs in Malaysia to have a broader understanding of the relationship between intellectual capital, knowledge management, and firm performance and know how to utilize their resources effectively for better performance. However, several advantages can be derived from the implementation of human and structural capital in a firm (Khalique *et al.*, 2018) and knowledge management (Ferraris *et al.*, 2019). The expected result of this conceptual paper is to find a positive connection between the study variables and firm performance which could eventually draw a conclusion of the importance of intellectual capital and knowledge management investment in a firm. Moreover, past literature has been approved in enhancing the firm's performance and improved relations with stakeholders and clients.

#### Implications of the study

This paper provides an impetus for SMEs owner/managers and the government of Malaysia to give greater and renewed focus to the aspects of firm performance and its influencers. Based on the past studies findings, the present study can argue that human capital, structural capital, and knowledge management are important antecedents of firm performance. Despite of its importance the conceptual framework has not been tested empirically. Future research could have considered other influencer factors such as relational capital, technological Future studies may consider other independent and moderating variables and test them empirically. Additionally, this study also depicts that innovation capability is mediated between the relationship of human capital, structural capital, and knowledge management toward firm performance. Future research may also conduct a comparative study on SMEs' intellectual capital and knowledge management in Malaysia on environmental concerns, such as environmental performance.

### IV. Conclusion

This conceptual paper focuses on two (2) dimensions of intellectual capital (human capital and structural capital) and knowledge management and its impact on firm performance. High emphasis on intellectual capital and knowledge management in Malaysian SMEs would also motivate other

firms in utilizing the firm's resources efficiently. Moreover, it explained how these human capital, structural capital, and knowledge management strategies could be used to generate superior performance. Firms should effectively exploit their firm's resources to enjoy superior performance. Hence, by looking at the fast-changing market trends and the competitive market, Manufacturing SMEs needs numerous strategies to provide better competitive advantage in producing better products or services to satisfy their customers' needs.

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## A Book Review On “Influence: The Psychology of Persuasion”

**Author:** Robert B. Cialdini,

**Publisher:** HarperCollins Publishers

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**Year of Publication:** 2021

**Price:** Rs. 599.00

**Qazi Asif Zameer \***

Persuasion is an integral part of human psychology and one of the fundamental objectives of our communication. In most situations, we communicate to persuade the receiver in behaving or acting in some manner, which is desirable for us. Right from a salesperson talking to the prospective customer, a mother talking to her kids or a team leader giving a pep-talk to the team members, such examples can be seen all around us. This book, authored by Robert B. Cialdini, brings out all the finer points and levers of persuasion in a very fluid, conversational style but based on robust academic tenets coming out of research and empirical evidence. The author is a celebrated author and Professor Emeritus of Psychology and Marketing at Arizona State University. This book has an interesting narrative that guides the readers to the psychological principles which influence the tendency to comply with a request.

In the introduction of the book, the author has revealed the methodology used by him to develop the content for this book. He did participant observation of compliance professionals – whose livelihoods depend on making people say ‘Yes’, like salespeople, fundraisers, marketers, recruiters etc. With disguised identity and intent, he would infiltrate the setting of his interest, become a full-fledged participant in the group to be studied and cull out the observations, data and examples to provide meaningful findings and interpretations.

The author postulates that broadly all the tactics used by compliance professionals can be clubbed in seven basic categories, each of which is governed by a fundamental psychological principle that guides human behaviour and thus gives power to these tactics. Accordingly, the author has organized this book in different chapters, each revolving around one fundamental psychological principle.

The first chapter talks about the ‘Levers of Influence’ and explains how human beings have developed automatic-behaviour patterns triggered by a single feature of the information to preserve crucial time, energy, and mental capacity. Trained professional use these levers to move people to agree to their request. In Chapter 2, the rule of ‘Reciprocation’ has been highlighted which puts our minds into an obligatory state to repay, in some form, what another person has provided. The author narrates many anecdotes and

illustrations to show how good salespeople and marketers use this to get customers to buy their products or businessmen get policy makers to help them. The next chapter delves into the principle of ‘Liking’. The author finds that we prefer to say ‘Yes’ to individuals we like. This likeability aspect can manifest through physical attractiveness (companies use more good-looking individuals in their sales teams), cultural similarity or use of compliments by the communicator. The principle of ‘Social Proof’ elucidated in the next chapter states that one important trigger people use to decide what to believe or do in a situation is look at conforming to what others believe and do, particularly if the other people are in large number and culturally similar to them. Chapter 5 talks about our belief in ‘Authority’. The degree of the tendency to obey legitimate authorities comes from systematic socialization practices designed to instill in members of society, the perception that such obedience constitutes correct conduct. Advertising agencies use this belief to great effect (someone dressed in white with a stethoscope is perceived as a doctor who advises the use of a particular toothpaste or health-supplement). Next comes the rule of ‘Scarcity’. People assign more value to opportunities that are less available. The use of this rule can be seen in such compliance techniques as ‘limited number’ and ‘deadline’. In the chapter on ‘Commitment and Consistency’, the author writes about how most people desire to be and look consistent within their words, beliefs, attitudes and deeds and compliance professionals use this principle by securing an initial commitment, which people are likely to fulfil at the required time. Chapter 8 is about ‘Unity’, the propensity of people to say ‘Yes’ to others who have shared identities – race, ethnicity, language, nationality or religious and political affiliations.

In the concluding chapter, the author summarizes that the accelerating pace of modern life and information overload means that we are forced to take a shortcut to decide to comply (or buy or believe) based on a single trigger. The most popular triggers have been described in the book- Commitments, opportunities to reciprocate, compliant

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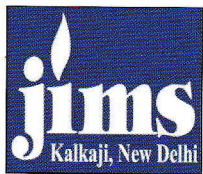
\* **Dean-Academics, IMT Centre for Distance Learning, Ghaziabad**

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behaviour of similar others, feelings of unity, authority directives and scarcity information.

The book is designed for the common reader but also gives key insights to professionals on how to twist these levers of influence and generate desired behaviour from their audience

– target customers, students, team members, family members etc. Interestingly, the author also gives tips to avoid falling into the traps of these levers. It is a fascinating and practical read.



# Jagannath International Management School

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**JIMS 8M: The Journal of Indian Management and Strategy**

**Call for Papers: Special Issue  
On**

**'Emotional Intelligence – Pillars of Relationship Management and Self Awareness'**

Submission Open for March, 2022 Edition:

**8M: The Journal of Indian Management & Strategy** is a UGC- CARE listed journal and on the Web of Science Core Collection. A fully refereed journal, 8M explores the contemporary research ideas and innovative thinking in management. The journal has an international focus and offers variety of perspectives from around the world to have a deeper insight into the current management theory and practice.

This special issue of 8M Journal invites papers to address issues pertaining to emotional intelligence and its role in developing leadership. Human emotion is one of the most powerful forces on the planet. While unavoidable, emotions are also indispensable sources of orientation and propel us to take action. But unbridled emotion can make us and those around us to act irrationally. When asked to define the ideal leader, many would emphasize traits such as intelligence, toughness, determination, and vision—the qualities traditionally associated with leadership. Often left off the list are softer, more personal qualities—but they are also essential. Studies indicate that emotional intelligence may be the key attribute that distinguishes outstanding performers from those who are merely adequate.

This call for paper seeks to comprehend issues related to evolving strategic mechanism to put emotional intelligence into action and to learn the difference between thoughts, feelings, and actions, and how these three interact and affect us in different ways. Conceptual and empirical papers are invited related to this issue but not limited to:

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Manuscripts may be submitted online at [jims.8m@jagannath.org](mailto:jims.8m@jagannath.org)

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1. Each manuscript must be accompanied with an abstract of 150-200 words. Please incorporate 5-6 keywords and JEL classification code. Manuscript should not exceed 5000 words.
2. The font should be 12 points and Times New Roman with 1.5 line spacing
3. All flow charts, graphs, and tables should be included in the text as they appear
4. The author's name, designation, affiliation, complete address with mobile number must be provided on a separate sheet.
5. References must follow **APA style** sheet.
6. Editorial decisions will be communicated within a period of 8 weeks of the receipt of manuscript.
7. Articles submitted for consideration in JIMS 8M should be accompanied with a declaration by the author that they have not been published or submitted for publication elsewhere.
8. Plagiarism: Authors should contribute their original work. To ensure originality and essence of the research contribution of authors we use plagiarism software and the authors are bound to adhere to it.

**Important Dates:**

The expected publication of the special issue is **March, 2022.**

Submission of Research Paper Deadline: **30<sup>th</sup> December, 2021**

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