

ISSN: 1975-8480
Volume 6 · Number 1 · Summer 2011

Management Review:
An International Journal

KINFORMS

Management Review: An International Journal · Volume 6 · Number 1 · Summer 2011

Management Review: An International Journal
June 30, 2011
ISSN: 1975-8480

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A Review of the Strategy of Industry Competition

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Received Nov. 30, 2009, Revised Oct. 14, 2010, Accepted Mar. 11, 2011

ABSTRACT

In this paper, we firstly discuss the competitive strategy theory based on the industry choice and competitive strategy theory based on a game theoretic approach, in these sections, we introduce the basic competitive force model, competitor theoretical analysis model, strategy group analysis model, new industrial organization theory model, strategic conflict theory model and Cooperation — competition theory model. Then, we review the competitive Strategy theory based on the analysis of behavior and process and the competitive strategy theory based on synthesis analysis framework, in these sections, we introduce the core capabilities view, overall capacity view, resource value assessment model and Matrix analysis mode. Finally, we make a brief comparison among them and make a conclusion.

Keywords: competitive strategy, game theory, core competence, resource evaluation.

INTRODUCTION

With the developing of the study of strategic management, more and more Scholars realize the limitations of the case analysis method. In order to establish the general pattern of strategic management, they start to use related theory to form research hypotheses and use Quantitative Methods to do empirical test.

COMPETITIVE STRATEGY THEORY BASED ON THE INDUSTRY CHOICE

With a similar background to the industrial organization theory which belongs to E.S.Mason, J.S.Bain and so on, the relation between enterprise's performance and its market environment has become one of the main themes of strategic management research; industrial organization theory gradually approaches a dominant position in strategic management research.

Basic competitive force model

Professor Michael E. Porter, a famous management strategist, believed that industrial structure has strong influence on setting Competition rules and Competitive Strategy that can be chosen by company, the state of competition in an industry depends on five basic forces interacting with each other, they are “threat of new entrants, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers, the industry jockeying for position among current competitors”. The collective strength of these forces determines the competitive strength and the ultimate profit potential of an industry. The strongest competitive force or forces occupy a dominant position and play an important role in strategy formulation. Porter developed three competitive strategies

that can be chosen, they are overall cost leadership, differentiation and focus. However, implementing these strategies needs different sources and skills, while there are different levels of risks. Generally, it is very necessary to keep using one of the strategies as a primary goal for a company to win success.

Competitor Theoretical Analysis Model

After the structural analysis of industries, Porter elaborated on another important part of competitive strategic theory in company: the competitor theoretical analysis model. It includes the following aspects: how to identify the competitors, how to analyze the competitors, how to predict and influence their market behavior.

Strategy Group Analysis Model

Noting that mobile barriers (that is, get-in and get-out barriers among different strategy groups) influence the business performance, discussing the relation between Group ownership and performance of the enterprises and making strategy group as a basic analysis unit is another application of industrial organization theory to strategy management research. Then porter use the concept of mobile barriers instead of the concept of barriers to entry, apply five forces model to strategy groups study, and evolve the structural analysis method in the industry. In the earlier studies, some scholars applied various oligopoly and monopoly model to describe the strategy relation which produced because of the interdependence among enterprises in the same industry, to discuss all the competitive reaction when companies take strategic action to access better performance.

COMPETITIVE STRATEGY THEORY BASED ON A GAME THEORETIC APPROACH

New Industrial Organization Theory Model

J. Tirole, a famous economist from France, who was the representative of modern industrial organization theory, believed that the differences between companies existed when the companies were set and remain the same, in other words, the heterogeneity of the companies is identified and inalienable. According to this argument, the strategy aims to use the given resources for meeting the demand of product market and to apply resources to take part in complex game, while is used primarily to access the excess monopoly rents from fixed investment by sophisticated means in the game.

Strategic Conflict Theory Model

The representative of strategic conflict theory is Carl Shapiro. In this theory, non-cooperative game model is applied to analyze the designing of corporate strategy under the non-perfect competition condition, by which the behavior of the competitors are affected, and the competition develops along the direction which is good for the company. The basic tool of the strategic conflict theory analysis is mathematical model, it apply the research results of game theory to strategy study, and use it to analyze the interaction among different companies. The way of interaction is mainly to take different selected modes, which include application of R&D, advertisement, capacity about forming competitive advantage and so on. The strategy behavior of company itself can also influence the behavior of the competitors through strategy signal. The timeliness of action is very important, the maxim of this theory is pre-emptive. The decision capacity of the managers is confirmed as the potential source of competitive advantage of the enterprises.

Strategic Conflict Theory Model

From cooperative game's standpoint, some scholars regard business as a game which is participated together by company and its competitors, complementary, suppliers and customers. In this model, the competitive and the complementary of the dynamic game process are analyzed thoroughly, the possible reaction of the game participator to enterprise strategy is described, grasping zero-sum opportunity and win-win opportunity comprehensively and dynamically is emphasized, then the popular cooperation — competition theory has formed. But in order to avoid government regulation such as anti-monopoly, companies that compete with each other may use modern information technology to set efficient collaborative network among the companies, so expanding the scope of cooperation — competition to the level between government and business groups.

COMPETITIVE STRATEGY THEORY BASED ON THE ANALYSIS OF BEHAVIOR AND PROCESS

Core Capabilities View

One of competitive strategy theory based on the analysis of behavior and process is "core capabilities view", of which Hammer and C. K. Prahalad are the representative; core capabilities is the combination of obviously advantage Individual technical and production skills contained in an enterprise production and operation. In the intense and volatile market environment since the 1990s, competition between companies shows a dynamic feature and is similar to the rapidly changing television programs. It has become a "campaign war". Competition is successful or not depends on forecasting the trend of the market and the rapid response of the changing customer demand. Under these conditions, the core business strategy is not on company's products or the market

structure, but on its response capacity. The goal of the strategy is to identify and develop the organizational capacity which is difficult to imitate. In the eyes of customers, this organizational capacity is a mark to separate business with its competitors.

Overall Capacity View

Another competitive Strategy theory based on the analysis of behavior and process is “overall capacity view”. This view shows how to understand identifying and nurturing their core capabilities. How to identify core competencies has become the most important prerequisite for an enterprise to accessing the competitive advantage. This viewpoint sees that nurturing core competencies does not mean that we should invest more funds into R & D than our competitors, nor does it mean to cause various utilities units to integrate vertically. In fact, core capabilities are from the collective study in business organizations, from the transmission of the experience norms and values, from the mutual exchange and the participation of organizations members.

COMPETITIVE STRATEGY THEORY BASED ON SYNTHESIS ANALYSIS FRAMEWORK

Resource Value Assessment Model

The theoretical departure and basis of the resource school is to emphasize the importance of the "resources" issue, in eyes of Collins and Montgomery who are its main representative, resources are the sum of assets and capabilities owned by a business. So if a company wants to make a success, it must develop a series of unique competitive of resources and allocate them to competitive strategies that are prepared. The current resource value assessment model has basically become the dominant theory school in the field of competitive strategic studies. Collins and Montgomery believed that

the assessment of the resource value cannot be made in the companies themselves, but be made after putting the company resources to face their industrial environment. They also believed that compared with the resources of its competitors, the company will determine its strengths and weaknesses. To this end, they proposed the following criteria: to assess whether resources are difficult to copy by competitors; to determine the speed of the depreciation of the value of resources; to analyze the resources creating value for whom; to forecast whether the resources that company owned can be replaced by better resources; to assess whose resources are better between their own resources and that of their competitors. So they can provide a solid and reliable basis for making and selecting the competitive strategy.

Matrix Analysis Mode

On the basis of study of Collins and Montgomery, British scholars Faulkner and Baumann further develop the resource faction-oriented competitive strategy theory system and analysis mode. They not only aggregated some views about competitive strategy theory based on the industry choice and based on analysis of behavior and process, but also conducted the fruitful bold innovation in analysis technical tools, and then greatly improved the practical value of company competitive strategy theory. In order to have an objective analysis of the market competitive status of a business, Faulkner and Bowman created the first "customer matrix". It consists of perceived price variable and perceived use value variable. If a company wants to have competitive advantage, it must provide the customers with the highest perceived value at the lowest perceived price. According to this principle, there are two basic strategic choices for a company in the customer matrix, the one is to reduce prices, and the other is to increase the perceived value. Which strategy a company should choose in the end must accord to

the extent to which the company has developed and used core competence. Core competence which can bring competitive advantage to enterprises is also known as the "key competencies". In order to analyze the key capacity, Faulkner and Bowman also created a technology tool called "producer matrix". In this matrix, the vertical axis represents the effective capacity that can produce value, and the relative unit cost is recorded on the horizontal axis. Comprehensively applying the "customer matrix" and the "producer matrix", an enterprise can grasp its market competitive status accurately.

CONCLUSIONS

According to the analysis above, the analysis logic of competitive strategy theory based on the industry choice is "industrial structure, company relative potential, the competitive advantages of company", the focus is on the external environment. In fact, it studies the impact of competitive force in industry environment on company decision. It is one of the most dynamic areas of strategic management. The negative feature of this analysis paradigm is that it pays too much attention to the external environment and stresses the role of market forces, and then overlooks the nature of the company itself. In the long run, this is not conducive to the cultivation of corporate competitive advantage.

The research of strategic group has touched on the differences of enterprise performance between the companies of the same industry to some extent. But so far, the majority study has been in the static framework. For the lack of static analysis, academics began to study the dynamic competitive behaviors of companies, that is mutual contact and mutual interaction of strategic action among competitive enterprises. But there is too strong balanced tendency for competitive strategy theories that base on game theory analysis

framework, which makes it unable to grasp the source and the process of forming competitive advantage.

Although two kinds of "capacity view" both emphasize the unique ability that is reflected by their internal practices and processes, theoretical innovation in the competitive strategy based on synthesis analysis framework is manifested in how to develop and implement the policies and proposals of competitive strategies. The ultimate goal of capability school is to make enterprises become competency-based competitors.

Future strategic management must study the predictable and unpredictable changes of enterprises adapting to the environment, then offer the measures or rules of the game under various conditions. To achieve this, we must develop many breakthroughs in methods. These breakthroughs come from the game theory as the main analytical tool and integrating effectively the other related subjects or theory, and then the macro-analysis, microscopic analysis, rational analysis and non-rational analysis are combined organically.

ACKNOWLEDGMENTS

Sponsored by 2010 Soft Science Program, The Study on Promoting Regional Economics integration Development Strategy by Breaking Local Protection and Market Segmentation and in Shandong Peninsula blue economic zone.
Issue Number: 2010RKGB1132

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The Role of General Managers of a Credit Union Movement in Determining the Loan Loss Estimation on Precise Commercial Loans¹

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ABSTRACT

This paper presents a literature review of loan loss management by bank managers according to positive accounting theory. In an empirical manner, the paper explores the role of general managers of a Canadian credit union movement in the management of the estimated losses on precise commercial loans.

Keywords: *Loan loss, Credit union, Commercial loan, Earning management, Positive accounting theory*

¹ The author gratefully acknowledges the insightful comments and guidance of Benoit-Mario Papillon, Professor in the department of management sciences at the University of Québec at Trois-Rivières and Jocelyne Gosselin, Professor in the department of accounting at the University of Québec at Trois-Rivières.

INTRODUCTION

The agency theory is based on the existence of information asymmetries and conflicts of interest in organizations, between the agents and the principal or between agents (Levinthal, 1988). The more difficult it is for the principal to monitor the efforts made by the agents as they carry out their specific tasks, the more organizations are exposed to agency costs. The characteristics of the tasks (e.g. intellectual work vs. manual work) or the size of the organization can make the monitoring of agents more difficult. Since information plays an essential role both for granting loans and file follow-up, the agency theory applies especially to financial institutions.

In fact, because of information asymmetry, financial institution managers have, to some extent, the opportunity to over- or under-state their loan loss estimation (LLE) depending on what they think maximizes their utility. The general managers of local credit union (GM) are also in a position of information asymmetry vis-à-vis the financial institution. This is particularly true for the identification of businesses that are struggling financially and the estimation of the loan loss that could be incurred. Consequently, they can also engage in the management of accounting information that is relevant to various aspects of their work.

The paper will develop as follows. Section II examines the motivating forces behind LLE management by managers. Section III poses the research hypotheses and the methodology. Section IV presents the results and the analysis. Section V concludes the paper by explaining the research contribution and some future research possibilities in the area of earning management by local credit union (LCU) agent.

LITERATURE REVIEW²

The incentive-based compensation system can motivate managers to engage in accounting information management. That system depends on accounting information, which is compiled according to recognized standards and is auditable by independent third parties (Coulombe and Tondeur, 2001). Despite these characteristics that increase reliability, some discretionary leeway still exists, this leaves room for management of accounting information. From the perspective of accounting information management, it can be possible to identify four strategies that can be adopted by a manager according to the motivations that drive him: 1) taking a bath (strong income minimization), 2) income minimization, 3) income maximization and 4) income smoothing.

Healy (1985) corroborates the earnings minimization hypotheses when managers are unable to meet the threshold performance level and the earnings maximisation when the managers are in the increasing premium zone. By doing so when they are unable to meet the threshold, they create provisions that they will be able to reverse in subsequent years when the threshold is meet. Applied in a banking context, these results would indicate that managers have a tendency to under-state their loan loss estimation when they fall into their increasing premium zone and to over-state it otherwise.

In accordance with the big bath hypotheses, new management teams tend to significantly reduce earnings and then blame the situation on decisions made by the previous administration (DeAngelo (1988)). By that logic, a new manager of a financial institution could over-state the LLE in order to free his

² The literature review was part of a theoretical article previously published by the Journal of Performance management (2008 issue 3) written by Sebastien Deschenes.

administration of any Responsibility pertaining to loans that were granted before he was hired.

On the other hand, the income smoothing hypotheses aims at maximizing the long-term value of a company. Indeed, reducing the volatility of earnings, decreases the risk perceived by investors. As a result, investors would discount anticipated cash flows at a lesser rate in order to establish the stocks' value (Fields and *al.*, 2001). McNichols and Wilson (1988) have demonstrated that managers use, among other things, loan loss estimation to implement an income smoothing strategy. Using this strategy enables bank managers to manage two of the expectations they have to meet. That is their bonus threshold and their performance. On top of that, this strategy allows them to gain stockholder confidence as to the quality of their management. In addition, given the low risk perceived, income smoothing reduces the propensity of regulatory agencies to pay close attention to the bank (Beaver and Engel, 1996). Literature shows that, in some countries, management of accounting income is not as big an issue as in others (Fonseca and Gonzalez, 2007). That could be explained by the presence of rules and regulations that protect investors, high standards regarding the disclosure of financial information, restrictions on the operations of financial institutions, government monitoring and the work done by external auditors. According to the same authors, bank managers who practice in countries where financial markets are both developed and important are more likely to manage accounting income. Using a sample of banks from 40 countries (excluding the United States), Fonseca and Gonzalez (2007) reached the conclusion that, as a rule, bank managers manage accounting earnings by smoothing them through loan loss estimations. Research by Beaver and Engel (1996), Kim and Kross (1998) and Greenwalt and Sinkey (1988) in the United States, by Shrieves and Dahl (2003) in Japan and by Ghosh (2007), in India, all support the income smoothing hypotheses.

Investors have a tendency to penalize heavily public corporations that fall short of analysts' expectations by reducing sharply stock prices (Barth and *al.*, 1999). Therefore, Beatty and *al.* (2002) have hypothesized that managers of public banks are under more pressure to practice earnings management than counterparts in private banks. Their research, which is based on a sample of American banks, revealed that compared to private banks, public banks were more likely to smooth earnings in order to show a constant upward slope over many fiscal years. They found that public banks: 1) rarely show declines in earnings, 2) were more likely to under-state loan loss estimations and to realize gains on securities to avoid a decline in earnings and 3) presented longer increasing earnings time series. The research done by Fonseca and Gonzalez (2007) also supports the hypotheses that public banks are much more likely to manage their earnings. However, they point out two theoretical reasons that could have explained a different result. The first is that private banks, which are usually smaller in size, often have a less diversified asset portfolio, making their operations riskier. They would therefore have more incentives to lessen the risk perceived by external observers. The second reason, also associated to their small size, is that they tend to attract less attention from regulatory agencies. Because of that, they have greater leeway to manage their accounting earnings. Even though Beatty and *al.* (2002) conclude that public banks tend to use earnings management more extensively, their studies show that private banks also manage earnings.

Consumer loans, by nature, are more homogeneous than commercial loans. Moreover, from the perspective of the financial institution, the credit risk is spread over a large number of files. These two factors would make the statistic loan loss estimation easier. In contrast, commercial loans are more heterogeneous both in terms of the risk of default and the risk of loss. For this reason,

loan loss estimations tend, to a greater extent, to be conducted by evaluating files on a loan-by-loan basis. In the early 1990s, Liu and Ryan (2006) analyzed a sample of American banks. They concluded that during the early 1990s economic recession period, banks showing a low profitability managed earnings upward by understating losses on heterogeneous loans. Furthermore, they found that during the economic boom between 1991 and 2000, they had managed earnings downward by overstating losses on homogeneous loans.

Banks that are more successful at income smoothing in times of economic prosperity (over-stating losses to reduce earnings) are those that are the most profitable and that hold large portfolios of heterogeneous loans (Liu and Ryan, 2006). To do so, for instance, managers only have to change an administrative policy, like the number of days past due that triggers a projected loan loss or the allowance rate they apply to the loan. However, it is difficult to under-state earnings using heterogeneous loan portfolios because, to do this, one has to coordinate the work of loan officers in the opposite direction of their self-interest, which is to show that loans for which they are responsible do not incur losses.

Banks can manage earnings using strategies other than income smoothing over time. However, few studies have looked into this. The big bath strategy used when non-discretionary earnings are negative was not significant in the Japanese banking sector between 1989 and 1996 (Shrieves and Dahl, 2003). Two reasons can be provided to explain why bank managers do not use the big bath strategy when the institution shows poor earnings. The first rests on the fact that managers are more concerned with maintaining regulatory capital than with maximizing compensation (Shrieves and Dahl, 2003; Krishnan, 1999). The second argues that financial institution managers who fail to meet established goals could adopt

a short-term earnings maximization strategy in order to keep their job (Barro and Barro, 1990; Defond and Park, 1997).

Regulatory Capital Management

Financial institutions that maintain the required regulatory capital ratio by a healthy margin appear safer. These institutions also pay lower insurance premiums, are under less scrutiny from regulatory agencies and have less restriction in business development. Being aware of these advantages, financial institution managers may want to artificially increase this ratio by managing accounting numbers. Extensive research support loan loss estimation management based on regulatory capital. The study by Ahmed and *al.* (1999), as well as that of Shrieves and Dahl (2003) with a sample of Japanese banks, argues that engaging in accounting information management to calculate regulatory capitalization, is more significant in banks showing a low ratio. More precisely, Liu and *al.* (1997) found that banks with low regulatory capital ratios waited until the fourth quarter to manage accounting information to increase their capitalization. With a sample of Indian banks, Ghosh (2007) documented that private banks also manage regulatory capital significantly.

Hypothesis and Method

The field of research, a Canadian credit union movement, is a propitious environment for the study of GM's management of the reserve related to specific commercial loans. It is normal to believe that the management of the estimation could be more accentuated because of the limited possibilities of performing income management by other means. In fact, literature on the management of accounting earnings in banks generally recognizes the sale of securities as another means of opportunistically making gains or losses (Beatty *and al.*, 2002; Shrieves and Dahl, 2003). However,

managers of the LCU do not have the possibility to do so since their organisations do not possess this type of investment. Furthermore, GMs do not have any control over the general provision, which is calculated with the help of prescribed rates by the Federation³ for each category of loans. Consequently, only the provision on the precise loans will be considered for management. Also, according to Liu and Ryan (2006), accounting earnings management is mainly done in the commercial sector since estimation of losses is more subjective. As a result, research interest has focused on the provision related to precise commercial loans.

Dependent Variables

The dependant variable on which the hypotheses are tested is the provision related to precise commercial loans for the years 2007 and 2008 combined. Because of the different context of both years, the statistical analyses have also been performed individually on 2007 and 2008. The year 2007 has been particularly profitable for the movement, all of the LCU having attained the objective for the payment of a premium. On the other hand, the year 2008 has been hit by an economic crisis, resulting in a counter performance of close to half of the LCU. By means of comparison, the regressions using the model have also been practised on the provision related to precise consumer loans for the years 2007 and 2008 considered in a combined or isolated manner.

Independent Variables (Research Hypotheses)

The New GM

³ The LCUs in our population sample are all affiliated to a same network which is placed under the supervision of the Federation.

The big bath strategy consists in artificially increasing the expenses by over-stating the provisions. The opportunistic manager would use this strategy if he were able to hold the relative blame for losses to a cause without questioning the quality of his own work. Two examples of contexts pertaining to this type of behaviour are a negative environment for the whole industry and the arrival of a new manager who is just taking office. The new arriving managers are interested in proceeding with a big bath to reduce performance expectations. The new manager is in a good position to do so since he has the opportunity of re-evaluating the value of the loans downwards and then imputing the responsibility of these losses to his predecessor (Elliott and Shaw, 1998). Considering this, it is possible to put forward the hypothesis that the GM could prefer an over evaluation of the provision related to precise commercial loans during the first financial exercise for which he is accountable. A non significant or an opposite coefficient to the one that is expected may be explained by the presence of new GMs who are responsible for earlier decisions. As an example, these new managers could be the commercial account managers promoted inside LCU.

Hypothesis 1

In the presence of a new GM who has arrived in his position during the financial exercise, the provision related to precise commercial loans tend to be over-stated.

The GM of a LCU Having Not Attained the Threshold for Premium

Healy (1985) has successfully submitted and tested the hypotheses concerning the accounting earning management made by the managers of companies that did not attain the minimal threshold of performance permitting the right to a premium. The managers who find themselves in this situation would do well to over-state the provision related to precise commercial loans in the

hope that this over evaluation reverses during a year where it will allow him to attain the triggering threshold or increase his premium. An opposite result to the one expected regarding this hypothesis could be explained by the priority given to the regulatory capital management during difficult times (Shrives and Dahl, 2003; Krishman, 1999) or by a short-term strategy aiming to prevent dismissal (Barro and Barro, 1990). Behaving in this manner, managers' conduct would correspond to the one adopted in the smoothing hypothesis.

Hypothesis 2

For the LCUs that miss the premium's triggering threshold, the provision related to the precise commercial loans tend to be overstated.

The GM of a LCU having attained the threshold for premium

According to Healy (1985), the managers of companies in which performance is within their progressive premium zone tend to operate an increasing accounting income management. The LCUs for which the performance surpasses the threshold will likely give premiums to their managers and to their employees. GM who find themselves within the premium progressive zone would be better off under-stating the provision related to precise commercial loans to maximise their premium.

Hypothesis 3

For LCUs that attain the premium's triggering threshold, the provision related to precise commercial loans tend to be understated.

The GM leaving his position

According to Dechow and Sloan (1991), the managers who are close to retirement would perform an increasing income management to maximize their premium. Many GMs are approaching the age of retirement. The Federation, which promotes fusions between the LCUs, invokes this situation as a facilitator element.

Hypothesis 4

During the year prior to his departure, a GM tends to understate the provision related to precise commercial loans.

The surplus smoothing

The surplus smoothing consists in reducing discretionary expenses when the surplus is inferior to the expectations and increasing it in the opposite situation. In the banking sector, the over evaluation or the under evaluation of the LLE could be used with this aim in view.

Prior research concludes that less profitable banks will tend to over-state their relative profitability by under-stating their allowance for loan losses and conversely for more profitable banks. A positive coefficient on the earnings variables has been a robust finding in prior studies (Beaver and Engel, 1996).

In an income smoothing perspective, the GM may be tempted to smooth the excess payment according to the measure of central tendency of profitability for the LCUs associated with Federation or according to the previous year's LCU surplus.

Hypothesis 5

The provision related to precise commercial loans is positively correlated with the difference between the surplus by \$100 of the LCU's assets and the movement's average.

Hypothesis 6

The provision related to precise commercial loans is positively correlated with the surplus difference by \$100 of the LCU's assets between 2008 and 2007⁴.

The presence of a business services manager

The Federation encourages LCUs with an important commercial loans portfolio to hire a business services manager (BSM). The BSM acts as an intermediate between the GM and the commercial loan officers (CLO). The BSM is a well paid position, which gives the opportunity to recruit good candidates with solid experience in commercial credit.

The presence of a BSM indicates a professionalization that should be translated, in principle, by a decrease in actual losses on commercial loans. On the other hand, the BSM, which acts as an intermediate position between the GM and the CLO, is able to understand clearly the GM expectations with regard to surplus management and to watch over the work involving the commercial LLE accordingly. The BSM would do so in order to favour his remuneration and his career advancement following the Yes men theory (Prendergast, 1993). In such circumstances, the BSM should accentuate the management of the provision related to precise

⁴ Hypothesis 6 applies to the year 2008 considered in an isolated way. This hypothesis could not be tested for the years 2007 and 2008 combined and for the year 2007 because we did not have access to the data for the year 2006.

commercial loans. An opposite result to the one expected could be explained by the expertise and precision brought by the BSMs for the commercial LLE.

Hypothesis 7

A positive (negative) relation is existent among the presence of a BSM and the provision related to precise commercial loans if we are in the presence of an over evaluation (under evaluation) of the said provision according to the Beaver and Engel (1996) model.

Regulatory Capital

Literature review identifies many articles supporting the regulatory capital management by banks managers (Wahlen, 1994; Beaver and Engel, 1996; Ghosh, 2007). According to Liu *et al.* (1997), management would prevail with more intensity for the fourth quarter in banks that present a low ratio. Similar management could prevail in the LCU network because it is possible to think that the GMs be tempted to under-state the provision related to precise commercial loans in order to present a better capitalization ratio. In this case, GMs could win a good management reputation and a greater decision-making freedom, particularly concerning the loans authorizations.

According to the criteria applied by the organization in charge of supervising the operations of the GMs in order to protect the investors, the LCU is placed under observation with a capitalization ratio inferior to 7,5 % while a supervised recovery plan is required with a ratio inferior to 5 %. The GMs could perform the management of the provision related to precise commercial loans according to these thresholds in order to respectively avoid being placed under observation and placed under guardianship.

Hypothesis 8

For the LCUs presenting a capitalization between 7.5 % and 8.5 %, the provision related to commercial loans tends to be under-stated.

Hypothesis 9

For the LCUs presenting a capitalization between 5 % and 6 %, the provision related to commercial loans tends to be under-stated.

The Agency Variables Measure (Variables Linked with Research Hypotheses)

Each hypothesis is tested with the inclusion of an independent variable into the prediction model of the provision related to precise commercial loans. All of the hypotheses, with the exception of those related to smoothing, are considered with the addition of a dichotomous variable. The variables that consider the smoothing in regard to the average movement performance and the one in regard to the previous year's LCU performance are measured by the gap between the surplus by \$100 of assets and the same number for the average LCU performance and the previous year performance of the same LCU respectively.

Control Variables

Beaver and Engel's (1996) proposes a four variables model to estimate the provision for non discretionary bad debts. On the basis of their sample, their model explains 94 % of the provision for bad debts that appear in the financial reports for the 1977-1984 period and 87 % for the 1985-1991 period. The independent variables in the Beaver and Engel model (1996) consist of: 1) net loan charge-offs, 2) outstanding loans, 3) nonperforming assets and 4) the one-year

ahead change in nonperforming assets. While this model has been developed a priori in order to estimate the nondiscretionary global provision (general provision and provision related to precise loans), it will firstly be validated on the provision related to precise commercial loans before adding to the agency variables. The same method will be used for the comparison regression on the provision related to precise loans and the provision related to precise consumer loans. Since the general provision is entirely nondiscretionary for the LCUs, the Beaver and Engel model (1996) should, in all logic, be applied to the provision related to precise loans. Furthermore, according to literature, there is nothing suggesting that the model could not serve to estimate the provision related to precise commercial loans and the provision related to consumer loans.

The Model

The model for the hypotheses management of the provision related to precise commercial loans presented algebraically is as follows:

$$\text{PRPCL} = \alpha_0 + \alpha_1 \text{CO} + \alpha_2 \text{LOAN} + \alpha_3 \text{NPL} + \alpha_4 \text{VARIMPC} + \alpha_5 \text{NDG} + \alpha_6 \text{M} + \alpha_7 \text{D} + \alpha_8 \text{QDG} + \alpha_9 \text{LMR} + \alpha_{10} \text{LAP} + \alpha_{11} \text{RCS} + \alpha_{12} \text{RCT} + \alpha_{13} (\text{OVER}) \text{BSM} + \alpha_{14} (\text{UNDER}) \text{BSM} + \alpha_{15} \text{YEAR} + u_1$$

PRPCL : Provision related to precise commercial loans/ELL

ELL : Net book value of common equity, plus total loan losses

CO: Commercial loan charge-offs /ELL

LOAN : Commercial loans outstanding/ELL

NPL : Nonperforming loans /ELL

VARNPL : One-period-ahead change in nonperforming loans/ ELL

- NDG : New GM (Dichotomous variable taking the value of 1 if the GM has arrived in his position during the year).
- M : Dichotomous variable taking the value of 1 if the performance of the LCU is inferior to the budgeted objective.
- D : Dichotomous variable taking the value of 1 if the performance of the LCU is superior to the budgeted objective.
- QDG : The GM manager has left his position the following year.
- LMR : Difference between the LCU surplus by \$100 of assets and the average profitability of the movement by \$100 of assets.
- LAP : Difference between the LCU's current surplus by \$100 of assets and the same number for the previous year.
- OVER : Dichotomous variable taking the value of 1 if the provision is superior to the predicted value by the Beaver and Engel model (1996).
- UNDER : Dichotomous variable taking the value of 1 if the provision is inferior to the predicted value by the Beaver and Engel model (1996).
- BSM : Dichotomous variable taking the value of 1 if the LCU has a BSM.
- RCS : Dichotomous variable taking the value of 1 if the LCU has a capitalization ratio between 7,5 % and 8,5 %.
- RCT : Dichotomous variable taking the value of 1 if the LCU has a capitalization ratio between 5 % and 6 %.
- YEAR: Dichotomous variable taking the value of 1 if the observation is for 2008.

Results and Analysis

The movement included 34 LCUs as of December 2007 and 31 as of December 2008. For the purpose of hypotheses tests, the two LCUs with a regulatory capital inferior to 5 % are excluded because their MLCs do not have the same influence on the commercial LLE. The size of the population is therefore reduced to 32 for the year 2007 and to 29 for the year 2008.

As of December 31st, 2007, the movement presented a loans portfolio of 2 161 million dollars in its cumulative balance sheet. The 32 LCUs composing our population had a portfolio of loans in average of 51,5 million dollars covering a range from 3,4 million dollars to 144,6 million dollars. The standard deviation of 34 million dollars is an indication of the large size difference between the LCUs. The doubtful loans and the provision related to precise loans are in average \$381 000 and \$168 000 respectively. Of the 2 161 million dollars in loans, 589 million dollars came from the commercial sector. The average portfolio for the LCUs is 15,3 million dollars. The extremes go from 0,4 to 58,1 million dollars with a standard deviation of 14 million dollars. On average, the doubtful debts is \$215 400, which make up 1,4 % of the portfolio. The average provision related to precise commercial loans is \$86 600, which represents 0,57% of the outstanding loans in this category. The 32 LCUs show an average surplus of \$0,97 by \$100 assets, with a standard deviation of \$0,36. In 2007, none of the 32 CLOs have functioned at a loss; the less performing one had a surplus of \$0,11 by \$100 assets. Each one of them had attained the performance threshold, giving the right to the payment of a premium. The average capitalization ratio is 8 % with a minimum of 5,1 % and a maximum of 10,8 %. Table 1 reports the descriptive statistics for 2007.

Table 1. Descriptive analysis of the data for 2007.

	N	Minimum	Maximum	Average
Loans portfolio	32	3 359 463	144 680 210	51 479 432
Doubtful loans	32	1 224	1 358 799	380 871
Provision on precise loans	32	1 978	607 434	168 201
Commercial loans portfolio	32	393 539	58 121 775	15 273 214
Doubtful commercial loans	32	0	1 193 736	215 483
Provision on precise commercial loans	32	0	493 452	86 622
Surplus by \$100 assets	32	.11	2,01	,9722
Capitalization ratio	32	.0510	.080	.080281

In 2008, the movement has registered a 77 million dollars increase of its loans portfolio, contributing to its reaching 2 238 million dollars. The commercial component has also progressed, from 589 million dollars in 2007 to 633 million dollars at the end of 2008. The average portfolio for the LCUs comprised in the population has increased because of the movement's general tendency, but also because of the fusions. As of December 31st 2008, the average loans portfolio stood at 61,2 million dollars. This represents a net progression comparatively to the 51,5 million dollars of the previous year. The commercial sector has evolved in the same way, going from an average portfolio of 15,3 million dollars for 2007 to 17,1 million for 2008. The portfolios' size dispersion is high because the standard deviation is 41 million dollars for the entire portfolio and 15,5 million dollars for the commercial component. The quality of the loans portfolio has deteriorated in 2008. The doubtful loans have passed from 0,74 % of outstanding loans in 2007 to 1,03 % in 2008. The provision related to precise loans has increased to 46 points of percentage to reach 0,79 %. The commercial loans portfolio, which is more sensitive to economic

cycles, shows ratios going in the same direction, doubtful loans being 2,64 % (1,4 % in 2007) and provision related to precise commercial loans adding up to 1,87 % (0,57 % in 2007). The 29 LCUs show an average excess payment of 0,34 by \$100 assets, which is a net decrease compared to the \$0,97 of 2007. For the year 2008, the standard deviation of surplus is \$1,08. This important standard deviation indicates a large dispersion. Contrary to 2007, where all of the LCUs had been profitable, three of them have showed results in red ink and close to half of them (fourteen) have not been able to pay out a premium to their employees in 2008 because of their weak financial performance. The average regulatory capital ratio still has progressed to attain 8,6 %, a 0,6 % increase compared to 2007. Table 2 shows the descriptive statistics of 2008.

Table 2. Descriptive statistics of 2008

	N	Minimum	Maximum	Average
Loans portfolio	29	3772494	144 468 800	611 95 316
Doubtful loans	29	22716	3 471 967	629 510
Provision on precise loans	29	7558	3 929 952	480 607
Commercial loans portfolio	29	362192	55 717 390	17 074 309
Doubtful commercial loans	29	0	3 471 967	449 978
Provision on precise commercial loans	29	0	2 522 676	319 919
Capitalization ratio	29	,0510	,1220	,086724
Surplus by \$100 assets	29	-3,61	1,86	,3445

The Beaver and Engel Model (1996)

The Beaver and Engel model (1996) has been applied respectively to the provision related to precise commercial loans, to

the provision related to precise loans and to the provision related to consumer loans for the years 2007 and 2008 considered in a combined and individual manner⁵. All of the regressions have been significant at 99 %. These regressions are not subjected to an autocorrelation of the residues according to the Durbin-Watson statistic. Furthermore, the independent variables are not correlated according to the VIF (Variance inflation factor) statistic⁶.

The explanatory power of the agency variables in addition to the Beaver and Engel model (1996)

The adjusted R²'s comparison between the models before and after the addition of the agency variables helps appreciate these variables' intake in order to explain the provision related to precise commercial loans, the provision related to precise loans, and the provision related to precise consumer loans. Table 3 helps demonstrate the variation of the adjusted R²s after the addition of the agency variables.

When they are taken collectively, the agency variables associated to our hypotheses increase the adjusted R² to 11,7 % for the regression on the provision related to precise commercial loans considering the years 2007 and 2008 in a combined manner. This increase approximately corresponds to a third of the non explained portion by the Beaver and Engel model (1996). This result indicates

⁵ For the regressions for the year 2008, the variation of the doubtful loans is not considered since the data for the year 2009 was not available at the research time. Regarding the regressions on the commercial loans and the consumer loans, the variable for the removed loans is also omitted because the information in the financial reports does not detail the distribution of the removed loans between the two components.

⁶ The agency variable Earning difference with the movement average and the agency variable Earning variation between 2007 and 2008 have been taken out of the model for the year 2008 due to a too large collinearity with other independent variables.

that the agency variables taken collectively have a significant added value and support the possible presence of management of the provision related to precise commercial loans. The adjusted R^2 also increases for the two other regressions (precise loan and precise consumer loans) considering the years 2007 and 2008 in a combined manner.

The adjusted R^2 progresses by 8,7 % on a non explained variation of 25 % for the provision related to 2007 and 2008 precise loans.

Table 3. Increase in the predictive power of the Beaver and Engel model (1996) after the addition of the agency variables

Predictive power of the model	Beaver and Engel model (1996) including a variable to take the year into account	The model with the agency variables	Increase of the adjusted R^2
Provision cumulating the losses related to precise commercial loans in 2007 and 2008	73,4 %	85,1 %	11,7 %
Provision cumulating the losses related to precise commercial loans in 2007	79 %	78,8 %	-0,2 %
Provision cumulating the losses related to precise commercial loans in 2008	91,1 %	96,4 % ⁷	5,3 %
Provision cumulating the losses related to precise loans in 2007 and 2008	75,0 %	83,7 %	8,7 %
Provision cumulating the losses related to precise loans in 2007	88,2 %	85,7 %	-2,5 %
Provision cumulating the losses related to precise loans in 2008	93 %	97,3 % ⁵	4,3 %
Provision cumulating the losses to precise consumer loans in 2007 and 2008	75,4 %	76,1 %	0,7 %

Provision cumulating the losses related to consumer loans in 2007	98,2 %	98,3 %	0,1 %
Provision cumulating the losses related to precise consumer loans in 2008	99,3 %	99,6 % ⁵	0,3 %

As for the provision related to precise consumer loans, the increase only adds up to 0.7 % on a non explained variation of 24,6 %. The management concentration for the commercial loans is in compliance with Liu and Ryan's results (2006).

HYPOTHESES TESTING

The New GM (hypothesis 1)

The first hypothesis says that a new GM over-states the provision related to precise commercial loans in order to create flexibility for the subsequent exercises. As the table 4 shows, the results for this hypothesis test are not conclusive. This hypothesis test shows that none of the coefficients are significant with a degree of confidence of over 90 %. Furthermore, the majority of the coefficients show a negative value, which is the opposite of what would be expected. For the two years that have been studied, the new GM variable does not seem to have any explanatory power in regards to the studied model for the LCUs that form the population.

The LCUs having missed (hypothesis 2) and having attained (hypothesis 3) the threshold for the performance premium

Hypotheses 2 and 3 have uniquely been tested for the year 2008, since all of the LCUs of the studied population have attained the threshold for the performance premium in 2007.

Table 4 The hypothesis for the new GM.

New GM	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	-0,008	0,818
Provision related to commercial loans for 2007	0,006.	0,710
Provision related to precise commercial loans for 2008	-0,017	0,708
Provision related to precise commercial loans for 2007 and 2008	-0,023	0,653
Provision related to precise loans for 2007	-0,017	0,422
Provision related to precise loans for 2008	-0,006	0,918
Provision related to precise consumer loans for 2007 and 2008	-0,004	0,852
Provision related to precise consumer loans for 2007	-0,007	0,239
Provision related to precise consumer loans for 2008	0,003	0,634

The hypothesis test for the year 2008 has been made by coding the dichotomous variable by zero if the threshold had not been attained and by one in the opposite case. The coefficients and their significant nature presented in table 5 needs to be interpreted according to the control group (LCU having missed the threshold).

The coefficient associated to the hypothesis for the provision related to precise commercial loans is insignificant with a degree of confidence of 90 %. However, it would have been significant in the expected direction, which stood at a threshold of 80 %. For the purpose of comparison, the calculated coefficients for the precise loans and the precise consumer loans are also insignificant even if

the threshold would stand at 80 % and, in the case of the provision related to precise loans, the coefficient would be the opposite of what is expected.

Table 5 The hypotheses for the LCUs having missed and attained the threshold for the performance premiums.

LCUs having missed and attained the threshold for the performance premiums	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2008	-0,027	0,186
Provision related to precise loans for 2008	0,014	0,582
Provision related to precise consumer loans for 2008	-0,001	0,930

Indirectly, we can conclude that having been part of the control group, more precisely the LCUs having not attained the threshold for the premiums payment, does not significantly explain the amount of the provision cumulating the losses related to precise commercial loans for 2008. Accordingly, hypothesis 2 is not supported. These hypotheses state that losses are over-stated when the LCUs have not attained the threshold. In this circumstance, literature review highlights two sources of motivation for which the effects on the dependant variable are opposed. While over evaluation and the will to create provisions that can be reversed in the years where the threshold is attained go hand in hand (Healy, 1985), under evaluation is done when there is desire to reinforce the position of the GMs despite bad results (Barro and Barro, 1990). Confrontation between these two sources of motivation could explain the non significant nature of the hypothesis test for the attainment of the threshold for the premiums payment.

GMs who have left their position (hypothesis 4)

The developed hypothesis concerning the GMs who have left their position says that the provision related to precise commercial loans can be under-stated in order to allow the GM to maximize his premium in the year preceding his departure. The results of the regressions performed, which are shown in table 6, do not validate the proposed hypothesis.

Table 6 The hypothesis concerning the GMs who have left their position.

GMs having left their position	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	-0,027	0,167
Provision related to precise commercial loans for 2007	-0,005	0,578
Cumulating provision related to precise commercial loans for 2008	0,006	0,805
Provision related to precise loans for 2007 and 2008	-0,031	0,238
Provision related to precise loans for 2007	-0,006	0,516
Provision related to precise loans for 2008	-0,032	0,279
Provision related to precise consumer loans for 2007 and 2008	-0,018	0,123
Provision related to consumer loans for 2007	-0,006	0,045
Provision related to precise consumer loans for 2008	0,000	0,935

Although the coefficients from the case in which the provision related to precise commercial loans tends to be going in the expected direction for the years 2007 and 2008 considered in a combined manner and for the year 2008 taken individually, none of them is significant at 90 %. The over evaluation of the provision related to precise commercial loans in the presence of a GM having left his position the following year then would not be supported for the LCUs who are part of the population for the years 2007 and 2008. However, it is interesting to point out that by adopting a degree of confidence of 80 %, the hypothesis would be accepted when considering the years 2007 and 2008 in a combined manner.

The regressions on the provision related to precise loans and the provision related to precise consumer loans show coefficients that are heading in the expected direction except for the ones linked to provision related to precise consumer loans, which post a value of zero. Furthermore, it is important to note that for the provision related to precise consumer loans for 2007 considered individually, the coefficient is significant with a degree of confidence of 95 %. We can therefore conclude that the GMs having left their position in 2008 would have under-stated the provision related to precise consumer loans in 2007. It is also important to note that the coefficient pertaining to the years 2007 and 2008 would have been significant with a degree of confidence of 80 %. This type of management, which consists of under-stating the amount of the provision, is likely to increase the performance premiums paid to the GMs in the year preceding their departure. The GM who acts this way also finds himself benefitting from a good reputation as a manager. This reputation could be very important to help find a new job (Prendergast, 1999) if he is removed as a result of a fusion.

The surplus smoothing according to the movement's average (hypothesis 5)

The hypothesis pertaining to the smoothing of the surplus in relation to the average LCU performance requires that a GM will over-state (under-state) the provision related to precise commercial loans when the surplus of his LCU is superior (inferior) to the movement's average. If so, the expected coefficient should post a positive value. The variable related to this hypothesis has been eliminated from the regression for the year 2008 due to an excessive collinearity with the bad debts. The hypothesis has therefore only been tested for the years 2007 and 2008 taken globally and for the year 2007 considered individually. Table 7 presents the coefficients associated to the gap between the LCU surplus and the average of the movement and their significant nature.

Table 7 The smoothing of surplus hypothesis according to the movement's average.

Smoothing of the surplus according to the movement's average	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	-0,091	0,00
Provision related to precise commercial loans for 2007	0,000	0,968
Provision related to precise commercial loans for 2008	Eliminated variable	S/O
Provision related to precise loans for 2007 and 2008	-0,131	0,000
Provision related to precise loans for 2007	0,008	0,516
Provision related to precise loans for 2008	Eliminated variable	S/O
Provision related to precise consumer loans for 2007 and 2008	-0,018	0,051
Provision related to precise consumer loans for 2007	0,001	0,808
Provision related to precise consumer loans for 2008	-0,030	0,322

The coefficient for the variable of the provision related to precise loans equation for 2007 considered individually is not significant. However, if we consider the combination of the years 2007 and 2008, the coefficient is significant with a degree of confidence of 99 %. The coefficient is however in the opposite direction of what was expected. It seems that for the years 2007 and 2008, we can associate the performance of a LCU according to the movement's average with the amount of the provision related to precise commercial loans. This relation would also exist for the provision related to precise loans with a degree of confidence of 99 %, and the provision related to precise consumer loans with a degree of confidence of 90 % when we consider the years 2007 and 2008 in a combined manner.

The Surplus Smoothing According to The Previous Year (Hypothesis 6)

The hypothesis was uniquely considered for the year 2008 because of the availability of data concerning the surplus for the year 2006, which would have been essential for the calculation of the independent variable for the year 2007. It has been impossible to test the hypothesis for the year 2008 as well since this variable presented a strong colinearity with the bad loans and the bad commercial loans. Consequently, the variable has been cut from the model in order to assure the interpretation of the other agency variables.

The Presence of a BSM (hypothesis 7)

The hypothesis on the presence of a BSM has been tested by introducing two agency variables, one for situations where the provision is over-stated and another for those where it is under-

stated. The expected relation was positive for the situations of over evaluation and negative for those of under evaluation since the hypotheses wished that the BSMs, according to the Yes men theory formulated by Pendergast (1993), behave in accordance to the explicit or implicit expectations of the GM. According to this theory, the subordinates subjected to subjective evaluations made by their superior have tendencies to adopt behaviours that are not likely of antagonizing the relationship. In the movement, the BSMs would then try to satisfy the GM. Table 8 presents the coefficients and their significant nature for the situations in which the provision is over evaluated.

Table 8 The hypotheses on the presence of a BSM – Cases where provision is over evaluated

Presence of a BSM – Over evaluation of the provision	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	0,036	0,130
Provision related to precise commercial loans for 2007	0,027	0,082
Provision related to precise commercial loans for 2008	0,068	0,010
Provision related to precise loans for 2007 and 2008	0,038	0,617
Provision related to precise loans for 2007	0,027	0,336
Provision related to precise loans for 2008	0,125	0,006

Table 8 shows that all of the coefficients are positive as expected by the research hypothesis. Moreover, the results for the provision related to precise commercial loans for the years 2007 and 2008 considered individually are significant with a confidence degree of 90 % and 99 % respectively. In these situations, the presence of a BSM would have amplified the management. By decreasing the level of confidence at 85 %, the result would also have been significant for the years 2007 and 2008 considered in a combined manner. These results leave the hypothesis of professionalization and independence likely of reducing management (Behrens, 1983), in plan. As for the provision related to precise loans in the presence of over evaluation, presence of BSM is only significant for the year 2008, and this, with a degree of confidence of 99 %.

Table 9 presents the results of statistical tests for situations in which the provision in the presence of a BSM is under evaluated.

Table 9 The hypothesis on the presence of a BSM – Cases where provision is under evaluated

Presence of a BSM – Under evaluation of the provision	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	-0,017	0,745
Provision related to precise commercial loans for 2007	No observation	---
Provision related to precise commercial loans for 2008	0,029	0,534
Provision related to precise loans for 2007 and 2008	-0,020	0,596
Provision related to precise loans for 2007	-0,013	0,373
Provision related to precise loans for 2008	-0,023	0,519

It was not possible to test the hypothesis pertaining to the effect of the presence of a BSM on the provision related to precise commercial loans for the year 2007 in the case of an under evaluation because there was no observation of a BSM and an under evaluation being present at the same time. The hypothesis is rejected for the years 2007 and 2008 combined and the year 2008 individually since no coefficient is significant with a confidence threshold of 90 %. The results for the provision related to precise loans are not significant either. The fact that the BSMs seem to collaborate for over evaluations but not for under evaluations is opposite to the results of Liu and Ryan (2006). They found that the subordinates collaborate easily while under-stating the losses because they see an advantage for the performance premium, but they also found that these subordinates would be recalcitrant to over-state to avoid the decreasing effect on their premium performance measurement.

The Regulatory Capital (Hypotheses 8 and 9)

The formulated hypotheses for the regulatory capitalization ratios between 7,5 % and 8,5 % and between 5 % and 6 % are in effect only when this situation prevailed the previous year. In these cases, the provision related to precise commercial loans of the present year should be under-stated in a way that artificially increases capitalization in order to move away from the thresholds involving respectively the surveillance and the guardianship of the LCU. The results do not support research hypothesis 8 because none of the coefficients are significantly different from zero. In light of these results, it seems that no management of the provision involve LCUs close to the surveillance threshold. A possible explanation, inspired from Barro and Barro (1990), is that the GM would not want to play with fire by performing management of the provision in

fear that, if his strategy is discovered, he would not only lose LCU autonomy but also the supervising authorities' confidence. For comparison purposes, the effects of a capitalization ratio varying between 7,5 % and 8,5 % on the provision related to precise loans and on the provision on precise consumer loans have been analyzed. These results show that these effects are not significant. Table 10 shows results concerning the hypothesis that tests the capitalization ratio between 7,5 % and 8,5 %.

Table 10 Hypothesis 8 on the regulatory capital ratio of the previous year between 7,5 % and 8,5 %

Regulatory capital ratio between 7,5 % and 8,5 %	Coefficients	Significant nature of the coefficients
Provision related to precise commercial loans for 2007 and 2008	0,006	0,717
Provision related to precise commercial loans for 2007	-0,004	0,619
Provision related to precise commercial loans for 2008	0,005	0,796
Provision related to precise loans for 2007 and 2008	0,016	0,480
Provision related to precise loans for 2007	0,000	0,606
Provision related to precise loans for 2008	-0,006	0,817
Provision related to precise consumer loans for 2007 and 2008	0,005	0,652
Provision related to precise consumer loans for 2007	-0,002	0,425
Provision related to precise consumer loans for 2008	-0,001	0,741

The results also do not support research hypothesis 9 since none of the coefficients are heading towards the expected direction. Furthermore, the coefficient associated with the provision related to precise commercial loans for 2008 is significant at a 99 % confidence

degree. Its significant nature indicates that the LCUs having a regulatory capitalization ratio varying between 5 % and 6 % in 2007 would have over-stated the provision related to precise commercial loans in 2008. This over evaluation in 2008 could be explained by a big bath strategy wanting to scapegoat the unfavourable economic context. The results of the regulatory capital ratio varying between 5 % and 6 %'s effects on the provision related to precise loans and on the provision related to precise consumer loans are also calculated. These results indicate that these effects are only significant (95 %) for 2008's precise consumer loans. The positive coefficient involves an over evaluation of the provision.

Table 11 Hypothesis 9 on the regulatory capital ratio of the previous year ranging between 5 % and 6 %

Regulatory capital ratio	Coefficients	Significance character of the coefficients
Provision related to precise commercial loans for 2007 and 2008	0,017	0,516
Provision related to precise commercial loans for 2007	0,011	0,737
Provision related to precise commercial loans for 2008	0,327	0,000
Provision related to precise loans for 2007 and 2008	0,004	0,898
Provision related for precise loans for 2007	0,030	0,727
Provision related to precise loans for 2008	0,070	0,434
Provision related to precise consumer loans for 2007 and 2008	-0,004	0,777
Provision related to precise consumer loans for 2007	-0,004	0,352
Provision related to precise consumer loans for 2008	0,003	0,011

This result is consistent with the one observed for commercial loans in 2008 and, consequently, supports the big bath. Table 11

shows the discussed results concerning the hypotheses tests in regards to the regulatory capitalization ratio ranging between 5 % and 6 %.

CONCLUSIONS

The Results

The results show that the agency variables taken collectively increase the predicting power of the Beaver and Engel model (1996) significantly for the year 2008 taken individually and for the years 2007 and 2008 considered in a combined manner. As for the variables taken individually, only the hypothesis for the cases where there is an over evaluation of the provision related to precise commercial loans in the presence of a BSM for the years 2007 and 2008 considered individually have received the empirical support with a degree of confidence superior to 90 %. For these precise situations, the BSMs have contributed in the over-statement of the amount of the provision. They could have behaved this way in order to satisfy the expectations of the GM.

Another result, even though it is not significant with a 90 % confidence degree, deserves to be mentioned. In fact, it is interesting to note that all of the coefficients associated to this departure of the GMs were negative, which leads to the under-stating of the provisions and, consequently, favours the payment of a higher premium related to the performance of the year before departure. Therefore, if we consider the provision related to precise commercial loans, the hypotheses would have been accepted for the years 2007 and 2008 taken in a combined manner with a degree of confidence of 83 %. In the same direction, the regression for the year 2007 with the dependent variable provision related to consumer loans highlights a significant coefficient of 95 %.

The agency variable of the surplus smoothing relating to the movement's average has shown significant, but found itself in the opposite direction of the research hypotheses for the provision related to precise commercial loans for 2007 and 2008. Consequently, within the movement, the over or under performance of a LCU could be explained by the provision related to precise commercial loans' importance.

The Model's Development

The research's practical purpose is to try to understand whether the estimation of the provision related to precise commercial loans is subjected to management by the GMs and, if possible, to identify the motivational sources resulting in such management. The method chosen to answer this research question is based on the use of the Beaver and Engel model (1996) to estimate the non discretionary portion of the provision related to precise commercial loans. It is an innovative use on two aspects: 1) application to a credit union movement and not to banks and 2) application to the commercial portion of the provision and not to the provision considered globally. In terms of management issues, the model has been enriched to take in account some agency variables that could likely explain the discretionary portion of the provision.

The Beaver and Engel Model's (1996) Applicability to Credit Cooperatives

The Beaver and Engel model (1996) is recognized in literature for determining the nondiscretionary portion of the provision for bad debts in the banking sector. Research results demonstrate that it can also be applied to a credit union movement in order to explain the provision related to precise commercial loans, the provision related to precise loans, and the provision related to precise consumer loans. The model remains effective even when we

eliminate some variables such as for the regressions of the commercial loans for 2007 and consumer loans for 2007, which omit the loan charge-offs, and for the regressions for the year 2008, where the variation of nonperforming loans between 2009 and 2008 could not be taken into account because of the 2009 LCUs financial reports' unavailability. The current nonperforming loans, emerging constantly as being the most significant, seem to be the only ones indispensable to the application of the model.

The Addition of Agency Variables to The Beaver and Engel Model (1996)

The agency variables introduced in this research increase the explaining power of the Beaver and Engel model (1996). In these conditions, eventual research on the provisions related to precise loans, as much as for commercial loans or consumer loans components, should consider agency variables. Table 12 shows the observed increase of the adjusted R^2 for each of the three regressions made for the years 2007 and 2008 considered in a combined manner.

In contrary to the majority of research studies that concentrate on the provision for bad debts, the present one study the provisions related to precise loans in a global manner and its commercial and consumer components. This refinement helps to consider more precise situations by admitting that management of general provision and specific provision are made in a different manner. According to Liu and Ryan (2006), the management of the general provision is an administrative decision demanding no collaboration from the loan officers, contrarily to the provision on precise loans, which requires the implication of personnel taking part in LLE.

Table 12 Comparison of the model's explaining power before and after the introduction of the agency variables.

	R² adjusted before the introduction of agency variables	R² adjusted after the introduction of the agency variables	Variation
Provision related to precise loans for 2007 and 2008	0,750	0,837	0,087
Provision related to commercial loans for 2007 and 2008	0,734	0,851	0,117
Provision related to precise consumer loans for 2007 and 2008	0,754	0,761	0,007

In addition, always according to Liu and Ryan (2006), the commercial loans would be more heterogeneous and more subjected to management. Their isolation, for analysis purposes, helps increase the possibility to identify situations in which a management exists since the evaluation of the provisions on these loans would be more subjective than those involving consumer loans.

Future Directions

Research opens the door to many other research projects that could complete the knowledge on provision management related to precise commercial loans in the context of LCU. Two future directions seem particularly promising: 1) the evaluation of the motivational sources implying LLE management and 2) the understanding of the role of the BSMs and the commercial loan officers in LLE management.

The Identification of the Precise Motivational Sources

In addition to certain indications of the management of provisions the year preceding the departure of a GM, research has not been able to conclusively identify the proper motivational

sources of the GM causing a management related to precise commercial loans loss estimation. To identify the precise motivational sources, the analysis could be refined by distinguishing the situations where a source of motivation should prevail.

The Role of the BSMS and Commercial Loan Officers

In the movement, the LLE's determination of the commercial loans provision contained in the financial statements is established firsthand by the commercial loan officers. It is then revised by the BSM (if this position exists) and by the GM. The GM therefore interacts with the BSMs and the commercial loan officers when they execute the management of the measure of the provision related to precise commercial loans. Given the results concerning the hypothesis tests on the GM's source of motivation, it would be interesting to investigate the interactions between the GMs, the BSMs, and the commercial loan officers in order to verify whether the GMs' ascendancy on the BSMs and the commercial loan officers eliminates their discretionary power or their capacity to influence the amount of the provision.

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Problems Associated with Artisans in Making of Handicrafts in Orissa, India

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Received Nov. 11, 2010, Revised Jan. 20, 2011, Accepted May 11, 2011

ABSTRACT

This research paper finds out different problems associated with craftsmen engaged in producing handicrafts in the state of Orissa, India. Orissa has a distinguished craft heritage. The craftsmanship of the arts and crafts embodies a tradition, which lives in the creative imagination of the artists of the state. The beauty and charm of its crafts has always been a source of attraction to many Indian and foreign tourists. From time immemorial, Orissa has carved out a name for itself in the field of handicrafts. The gifted artisan could produce wonderful objects of craft from simple materials. Their rare artistic skill has been streamlined in the manufacture of exquisite household pieces. This sector of economy directly or indirectly provides employment to more than one lakh people of the state. However, the artisan community faces a number of problems and need intervention to improve their quality of life. This paper, through primary research, finds out different problems associated with the community and suggests solutions which can be extrapolated for different artisan community.

Keywords: *Artisans, Entrepreneurs, Handicrafts, Orissa, Social Entrepreneurs*

INTRODUCTION

The handicraft artisans of India, at least a large majority of them, are known for their perfection of craftsmanship, excellence of design and form and an unsurpassed sense of colour. The craftsman's position in the pre-dominantly agricultural society was pivotal, for it made the village society self-contained. The artisan was an important factor in the equation of the Indian society and culture. It is the artisans who actually develop handicrafts. The nimble fingers of the craftsmen turned every article they touched into a thing of joy. Visual manifestations of a millennium of Orissan culture, these arts and crafts embody and reflect a tradition, which still lives in the creative imagination and skill of her craftsmen. Most of the designs, forms and colours employed by them have evolved slowly through the disciplined efforts of generations of craftsmen.

These handicrafts reflect not only the refined taste of their makers but also testify to the love of the people for beautiful objects of rituals, decoration and of daily use. From the choice of the raw materials to the final finishing touch, at every stage, craftsmen had to adhere to set standards with almost ritualistic precision.

The specific objective of the present study is to evaluate the problems of the artisans in relation to payment, supply of raw materials, availability of orders, loan raising and marketing etc.

LITERATURE REVIEW

The aesthetic and cultural importance of handicrafts is highlighted in 'handicrafts of India' by Abraham (1964). Man's association with art and craft dates back to the period when human civilization first started. He created stone weapons for safeguarding himself against furious animals in forests. Pathy (1990) in his book entitled "Traditional paintings of Orissa" beautifully explains the origin of the famous painting art of Orissa especially of Puri district. He says it is most natural to think that these are the painters who are the descendants of people who once painted for the Buddhists, Jains and Sikhs and who also now paint for vaishnavas for the devotees of Jagannath. Some more ideas on Pattapainting art of Puri is given by J.P. Das (1980) in his book "Puri Paintings". The author has given vivid description of the decay and revival of the Pattapaing art of Puri. Government patronage was almost nil and hence this art was about to die, however it could be said due to the sincere effort of an American lady. She had brought back a whole community of Chitrakaras to profession which was traditionally their own but which they had abandoned under compelling circumstances.

Ahmed (1980) in his book entitled "Problems and Management of Small Scale and Cottage Industries" and Bharati (2005) express that the satisfactory performance in marketing of handicrafts could be possible due to the special interest taken by central as well as State Government to boost up the export of handicraft article and the qualitative performance of the artisans. Papola (1984) in his book "Rural industrialization" and Das (1980) had made an extensive study on 14 Categories of rural industries. Most rural industries especially traditional in nature have a limited capacity to generate even the subsistence income to the members engaged in it. Setty (1963) and Mohapatra (1991) make a comparative study

between small scale and household industries in his book entitled “Small Scale and household industries in a developing country”. Setty is of the opinion that those units which are the sole and full-time occupation of entrepreneurs yield better income. For this reason, small scale industries can yield more income than household industries.

A project work was undertaken by Indian Census (1981) to study the different aspects of bellmetal industries. It discusses the present status of the industry, the various problems it faces all around and the reasons for its gradual decay. The report reveals that during the last two decades the craft men witnessed disintegration and has to survive against new rivals. Rao (1978) in his book “Marketing of Handicrafts” has elaborated about marketing of handicrafts in which he has also highlighted about activities of artisans. Mohapatra (1987) also stress these activities as the living needs of artisans. Mohapatra (2005), Santanu (1995) and Samal (1994) has done her research work in “Applique craft tradition and craftsmen of Orissa and change”.look to their appliqué works. Bharati (2005)in an article “Eastern India Handicrafts:A Preliminary Survey”published in Floklone a journal of anthropology states that the tailor artists of pipili have become specialized in giving gorgeous. Gill (1980) explained about artisan history,the artisan socio-economic condition and their problem areas in handicraft sector. Pathy (1990) in his book entitled “ Traditional painting of Orissa” beautifully explains the origin of the famous painting art of Orissa especially of Puri district.He says that it is most natural to think that these are the painters who are the descendants of people who once painted for the Buddhists, Jains, Sikhs and who also now paint for vaishnavas or the devotees of Jagannath

The various reports of Government of Orissa like Task force report of 1977,Status report on handicraft of 1990 and other reports of the Development commissioner, Handicraft, New Delhi, the

survey report on marketing of handicrafts conducted by Indian co-operative union(1955) throw light on the socio economic aspects of the industry. From the choice of the raw materials to the final finishing touch ,at every stage, craftsmen had to adhere to set standards with almost ritualistic precision.It is the artisans who actually develop handicrafts. Hence ,it would be fruitful to examine and understand the socio-economic background of artisans, which influences the development of handicrafts.

Shetty (2009) has mentioned about business to business directories were created in order to meet the demand of the consumers and outline presences of handicrafts, is required to make easier for consumers to buy their gift items and for manufacturers and artisans to reach out to them. Arindam (2010) has expressed though Tunisia online news about the importance of handicraft sector in the economic development as well as its role in strengthening the cultural identity, heritage preservation which contributes to the overall development , creating job, opportunities ,demand creation for the artisans and promoting exports.

Samal (1994) in his thesis has also explained in his article that the Tribal co-operative marketing Development Federation of India Ltd.(Trifed)has started the process of branding some of the tribal handicraft that it buys from artisans and sell them at its 36 ‘Tribes India ‘ outlets in the country and two overseas which can provide marketing support to the artisans

From the available literature, the problems that artisan community in Orissa face are largely classified into timely payment of their wages, availability of raw materials, regular orders for different artefacts, need for financial assistance in form of loans and ability to market the handicraft products. This forms the context for study for the present research.

RESEARCH METHODOLOGY

Sampling

For the present investigation, Orissa state is purposively selected, mainly because of the striking selection of decorative and utilitarian art and craft and special creative and imaginative craftsmanship of orissa. The present research has been conducted for four handicraft items, i.e. stone carving, appliqué, filigree, pattachitra. The required data for the present study have been collected both from primary and secondary sources. Primary data have been collected through the “Survey Method” with the help of structured questionnaire. 300 artisans were covered in this survey. We have interviewed each artisan who was engaged in one of the chosen four craft items. For finding of the objective and drawing of the conclusion, percentage as the statistical tool has been used.

DATA COLLECTION AND ANALYSIS

Problems with Master Craftsmen

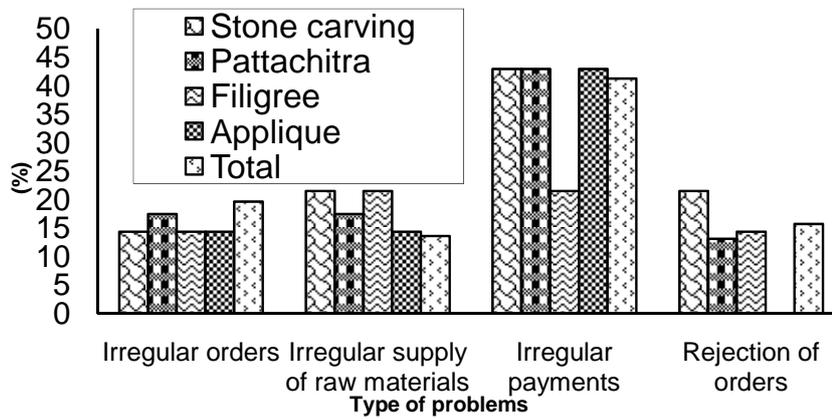
There are 51 respondents who are depending on and working for master craftsmen. They all expressed different problems like irregular orders, irregular supply of raw materials, irregular payments etc. These problems are presented in Table 1.1 and figure 1.

Out of 51 respondents working for master craftsmen, as many as 21 respondents (41.28 percent) have expressed the problem of getting irregular payments from the master craftsmen, about one-fourths of the respondents have said that they are facing the problem of irregular supply of raw materials. About one-fifths of respondents have mentioned that they are getting irregular orders from the master craftsmen. As many as 8 respondents (15.68

percent) have expressed that they are facing the problem of rejection of orders that the products are not meeting the specifications given.

Table 1. Problems with Master Craftsmen

	Stone Carving		Pattachitra		Filigree		Applique		Total	
Irregular orders	2	14.28	4	17.39	2	14.28	2	14.28	10	19.61
Irregular supply of raw materials	3	21.43	4	17.39	3	21.43	2	14.28	12	13.53
Irregular payments	6	42.86	6	42.86	3	21.43	6	42.86	21	41.18
Rejection of orders	3	21.43	3	13.04	2	14.29	Nil	Nil	8	15.68
Total	14		17		10		10		51	

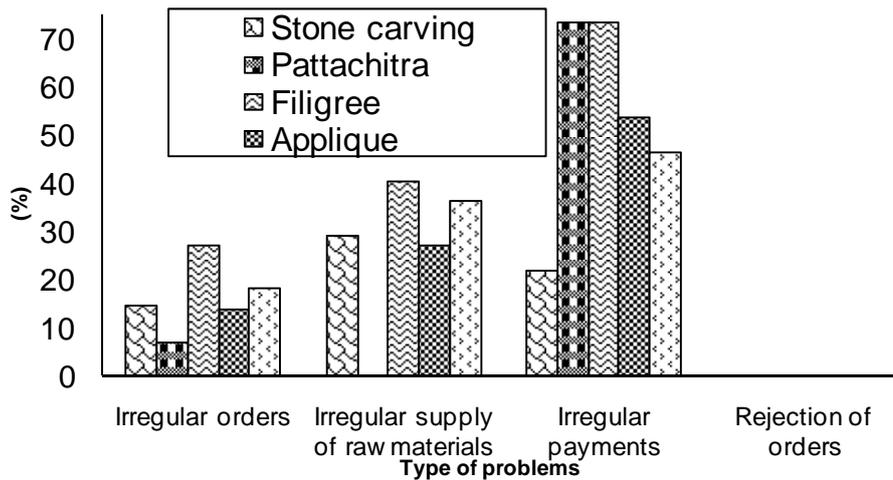


Demographic profile of handicraft artisans for various problems with master

Figure 1. Demographic Profile of Handicraft Artisans with Master

Table 2. Problems with Dealers

	Stone Carving		Pattachitra		Filigree		Applique		Total	
Irregular orders	4	14.28	2	6.67	4	26.67	2	13.33	14	17.95
Irregular supply of raw materials	8	28.56	Nil	Nil	6	39.90	4	26.67	28	35.90
Irregular payments	16	21.43	11	73.33	11	73.33	8	53.34	36	46.15
Rejection of orders	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total	28		15		30		14		78	



Demographic profile of handicraft artisans for various problems with
 Figure 2. Demographic Profile of Handicraft Artisans With Dealer

Problems with Dealers

The craftsmen have expressed some problems with dealers also. The problems expressed by 78 respondents, who are working for the dealers, are shown in Table 1.2, 46.15 percent of respondents have

expressed that they are getting payments irregularly. About 36 percent of respondents have said that they are not getting raw materials regularly. While nearly 18 percent have felt that the societies are not giving them regular orders. The findings are shown in table 1.2 and figure 2.

Problems with Co-operative Societies

Usually artisans join co-operative societies to overcome the difficulties faced by them either with master craftsmen or with dealers. It is surprising to note that the artisans who are working for co-operative societies are also not free from problems. Now a day the artisans are not at all interested to go for co-operative societies. The problems expressed by 48 respondents, who are working for the co-operative societies are shown table 1.3.

Table 1.3. Problems with Co-Operative Societies

	Stone Carving		Pattachitra		Filigree		Applique		Total	
Irregular orders	Nil	Nil	2	10.00	1	33.33	4	16.00	7	14.58
Irregular supply of raw materials	8	40.00	8	40.00	Nil	Nil	2	66.67	18	40.00
Irregular payments	2	66.67	8	40.00	2	66.67	8	40.00	20	41.67
Rejection of orders	Nil	Nil	2	10.00	Nil	Nil	Nil	Nil	3	4.00
Total	10		20		3		15		48	

About 42 percent of respondents have expressed that they are not getting payments regularly. The other problems expressed by the respondents are irregular supply of raw materials (40 percent), irregular orders (14.58 percent) and rejection of order (4.00 percent). Therefore, irregular supply of materials and irregular payments by master craftsmen, dealer and co-operative societies are the common problems of a majority of the respondents in all the crafts. The main reason for the dependence of artisans on master craftsmen and dealer is their own poor financial condition.

It is suggested that the government should supply raw materials to all craftsmen through “raw materials depot”. Commercial banks should lend loans and advances to all artisans so that craftsmen will not depend on master craftsmen and dealers for raw materials and finance. So the government and its agencies should provide raw materials, finance and proper market for handicrafts to all craftsmen.

Problems of craftsmen in raising loans

Most of the respondents are facing problems of providing security, rigid procedures and formalities and inadequate loan amount. There are several problems in raising loans from different sources. Hence, an attempt is made to identify the problems. Table 1.4 reveals the problems in raising loan and advances by the artisans.

Out of 202 respondents, 10 respondents express the problems with master craftsmen. 17 respondents expressed problem with dealers and 27 respondents faced the problem of exploitation, in the sense that they are forced to sell their produce only to their lenders. 5 respondents, who have faced problems with co-operative societies, said that the societies have provided inadequate amount of loan. The problem of high interest rates has been expressed by 10 respondents who have taken loans from moneylenders. About 80 percent of the respondents (160) who have faced problems in raising

loans from banks, faced the problems like inability to provide security (50 respondents), rigid procedures and formalities (50 respondents), inadequate loan amount (40 respondents) and indifferent attitude of bank employees (20 respondents).

Table 1.4 : Problems in raising Loans and advances

	Master Craftsmen		Dealer		Co-operative Society		Money lender		Bank		Total	
Inability to Provide security	Nil		Nil		Nil		Nil		50		50	
High interest Rates	Nil		Nil		Nil		10		Nil		10	
Exploitation	10		17		Nil		Nil		Nil		27	
Rigid procedures And formalities	Nil		Nil		Nil		Nil		50		50	
Inadequate loan amount	Nil		Nil		5		Nil		40		45	
Negligent attitude of bank employees	Nil		Nil		Nil		Nil		20		20	
Total	10	4.95	17	8.42	5	2.48	10	4.95	160	79.20	202	100

Suggestions to overcome the problems of loan raising

Since majority of respondents (around 80 percent) facing several problems in raising loans, respondents have been asked to offer suggestions in this regard. Table 1.5 reveals the suggestion offered.

Table 1.5 : Suggestions offered by respondents to overcome problems in raising loans and advances

Suggestion	Stone Carving			Pattachitra			Filigree			Applique			Total
Separate financial Corporation	20	29.85	8	32.00	28	35.00	12	40.00	68	33.66			
Strengthening co-operative Societies	10	14.93	8	32.00	21	26.25	Nil	Nil	39	19.31			
Bank should liberalize	37	55.32	9	36.00	31	37.75	18	60.00	95	47.03			
Total	67		69		64		22		213				

Suggestions have been given by respondents to overcome the problem faced by the artisans. 47.03 percent of respondents have said that the commercial banks should liberalize their credit policy. About one-fourths of respondents have suggested that the co-operatives societies may be strengthened. Most of the respondents have suggested the establishment of a separate financial corporation.

In the absence of proper institutional financial help, the artisans depend on private people, who usually take advantage of the situation and exploit the artisans. Hence, it is suggested that the Commercial Banks, Regional Rural Banks, Orissa Handicrafts Development Corporation may provide necessary finance to the artisans in all crafts

Marketing Problems faced by Artisans

The artisans face many problems in marketing, which are examined below in table 1.6 and Figure 3.

Table 6 . Marketing Problems

Particulars of Marketing Problems	Stone Carving	Pattachitra	Filigree	Applique	Total					
Rapid changes in consumer preferences and tastes	22	37.29	16	25.40	20	26.67	10	43.48	68	30.91
Inadequate advantage and publicity	21	35.59	21	33.33	26	34.67	10	43.48	78	35.45
Unremunerative pricing	12	20.34	12	19.05	14	18.67	3	13.04	41	18.64
Exploitation by middlemen	4	6.78	14	22.22	15	20.00	Nil	Nil	33	15.00
Total	59	100	63	100	75	100	23	100	220	100

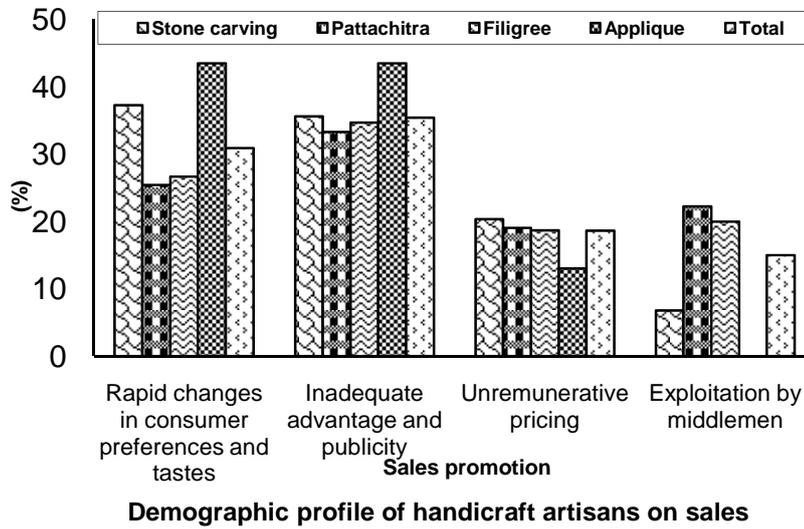


Figure 3. Demographic Profile on Sales

From the above table it is observed that a majority of the respondents (37.29 percent) in stone carving have said that they have faced the marketing problems due to rapid changes in consumer preferences and tastes. There are only four respondent (6.78 percent) in stone carving who have been exploited by middlemen. In the Pattachitra, one third of the respondents have faced the problem of inadequate advertising and publicity. 16 respondents (25.40 percent) have faced rapid changes in consumer preferences and tastes. As many as 12 respondents (19.05 percent) have faced the problem of unremunerative pricing in Pattachitra, where as 14 respondents (22.22 percent) have faced the problem of middlemen exploitation. In the filigree group, more than on third of the respondents have faced the problem of inadequate advertising and publicity. As many as 20 respondents (26.67 percent) have faced the problem of rapid changes in consumer tastes and preferences. 15 respondents (20 percent) have faced the problem of middlemen exploitation. However, 14 respondents (18.66 percent) have faced the problem of unremunerative pricing. In the appliqué, 20 respondents (86.96 percent) have faced the problem of rapid changes in consumer preferences and tastes and inadequate advertising and publicity. In almost all crafts, the respondents have said that they have faced the problem of inadequate advertising and publicity and rapid changes in consumer preferences and tastes. Some of the craft persons and exporters in relations to silver filigree, Pattachitra, appliqué and stone carving have been interviewed and their opinions are given in the following tables.

View of Master Craftsmen On Major Problems And Possible Solutions

Silver Filigree

According to Sri Harekrushna Jesty, Mansing patna, Tulsipur, Cuttack, Orissa

Major Problems

Regarding the major problems related to silver filigree, Sri Jesty says that filigree work is losing its attraction from the buyers due to its impurity. There is no control over its quality. The Bhalias, who are mostly from outside Orissa viz. Bihar, Gujarat and Rajasthan, give low quality silver and pay less to the craftsman. Filigree market is not organized.

Suggestions

Silver filigree should be produced through scientific quality control.

1. The craftsmen should be encouraged by providing with better wages and old age pension.
2. Loan should be provided to the craftsmen for upgradation of the tools used in filigree work.
3. Regular exhibitions should be organized and advertisements should be made in media including T.V.

According to Sri. Nityananda Behera, Kazi Bazar, Cuttack, Orissa.

Regarding the major problems faced by filigree craft of Cuttack, Sri Behera opines the following to be the major problems :

- a) Improve machine made filigree products at lower making charges have been brought from Kolkata and other places to the Cuttack market. As a result, it is becoming very difficult for the local hand-made products to compete with the outside products.

- b) Lack of capital in the hands of the craftsmen to modernize the filigree equipment / tools is a great hindrance in the progress of the craft.
- c) Lack of education among the craftsman may be a factor for the backwardness of the craft. The silver filigree craftsmen, therefore, have remained backward and tradition bound. They do not think like a modern businessman.

Suggestions

The following are the major suggestions given by Sri Behera for the development of the craft.

1. Both the production and marketing of silver filigree should be organized by the government and some government agency.
2. The filigree products should be standardized through scientific quality control.

According to Sri Rama Chandra Sahoo, Mansing patna, Cuttack, Orissa.

Major Problems

The following are the major problems of filigree craft as told by Sri Sahoo:

- a) There is no control over the quality of silver used in filigree products.
- b) Large scale inflow of machine made filigree products to Cuttack at relatively lower making charges compete with the hand-made products, putting the craftsmen of Cuttack at a great disadvantage.

- c) Silver filigree market is unorganized and it is totally controlled by the outside traders.
- d) Paucity of working capital in the hands of the craftsmen affects the total turnover and the total earning capacity of the filigree craftsmen.
- e) Aged craftsmen are not being protected by the state government.

Suggestions

The following are the suggestions given by Sri Sahoo for the betterment of the craft.

- a) There should be scientific quality control for silver filigree products.
- b) There should be restriction on the inflow of outside filigree products.
- c) Filigree market should be organized and free from the monopoly of the outside sellers.
- d) Craftsmen should be provided with old age pension.

Applique

According to Mr. Jabar Khan (exporters & whole seller)

Diamond Applique WorkShop, Pipili, Puri.

Major Problems

- There is no control over quality.
- Design registration should be done. That means whatever design somebody has introduced on any pot should be registered. Then no one can copy it.
- Lack of publicity of appliqué craft leads to lower demand.

- As there is no directory containing the address of the sellers, customers find it difficult to place orders for their desired appliqué craft

Due to the good demand of this craft, many unskilled craftsman are releasing the products to the market with lowest quality by using cheapest materials. Also the products being supplied by them to the exporters to Delhi. The foreign buyers who take high quality products are no more interested to purchase. Many of our master craft persons are now in empty hand, not willing to make any new designs, due to fear of copying.

Suggestions

- a) The State Government should take steps for preventing duplicating of designs. On the other hand steps on Design registrations of artisans should be undertaken..
- b) The Govt. should provide opportunity to all producers to participate in different Exhibitions such as in Madhopur Crafts Mela, Hyderabad. Lucknow Mohostav, Lucknow. Surajkund Craft Mela, Faridabad, and to organize own exhibitions with assistance of Industries department, Govt. of Orissa and Development Commisioner of Handicrafts, Govt. of India.
- c) The Govt. should bring a Directory of Orissan Handicrafts with related craftsmen, and place under different Tourists Offices, Airports and Luxury Hotels. The foreign buyers can get more details about our products and enable them to purchase the goods directly from artisans.
- d) The Govt. should provide necessary assistance to the artisans willing to take part in the National and International Exhibition where they can be able to bring their products directly to foreign buyers.

- e) The Govt. should arrange workshop for master crafts persons on colour combination and design development by which they can able to make new designs and earn more at Pipili.
- f) The Govt. should require (demand) minimum five new products from the artisans who are willing to participate in the exhibitions organized by Handicrafts Department. In this way, the inspirations for making new products can be raised among the artisans.
- g) To encourage the artisans, the Govt. should open a shop of raw materials at Pipili. By which the artisans can get their necessary raw materials plenty with suitable prices.
- h) Pipili is historic place of Orissa, famous for its high quality hand-made appliqué products. Many V.I.P. Tourists spare some time here during their visit to Puri and Konark. Many times it is seen that the vehicles used by the V.I.P. Tourists stand long-long time on the main road. Due to congested space, the common people are facing problems on road. So, if a permanent market complex is provided to the artisans by the Govt. the problem can be avoided and the artisans can be able to accelerate the business.
- i) The Govt. should take action to set up a colour-processing unit at Pipili to make easier and cheaper cloth to be used in their products.

**According to Mr. M.D. Muktar (Rajnigandha appliqué workshop),
Pipli, Puri**

Major Problems

The raw materials for appliqué industry is not available in the local market and they have to go to Puri, Bhubaneswar and Cuttack to procure such materials. The quality of the materials is also not good.

Non-availability of loans, delay in sanction of loans, inadequacy of amount of loans, absence of cash loans is major difficulties. Imitation of designs is a common problem of the appliqué craftsmen.

Suggestions

- a) The Govt. should set up strong rule and heavy penalties to copy of the designs in appliqué craft.
- b) The daily wages for the artisans should fix by the government, so that the artisan are not exploited and can earn actual earning against their labour.
- c) To encourage the artisans, the Govt. should open a shop of raw materials at Pipili, by which the artisans can get their necessary raw materials with reasonable prices.
- d) The Pipili Applique Society should accept unemployed artisans as the member and the Govt. should provide bank loans to these artisans.
- e) The artisans are facing the Sales Tax problems, while taking their goods for the exhibition in different states. So, the Sales Tax should be exempted by the Govt. on appliqué products.

Pattachitra

According to Mr. Kunjabana Moharana ,a chitrakara in Raghurajpur,Orissa

Problems

- a) Pattachitra market is not at all organized.
- b) Aged craftsmen are not being protected by the State Government.

- c) Large-scale inflow of machine made painting items at relatively lower making changes compete with the hand-made products, putting the craftsmen at a great disadvantage.
- d) Lack of capital in the hands of the craftsmen to modernize the patta painting is a great hindrance in the progress of the craft.
- e) Marketing of the finished products is a problem for the craftsmen.

Suggestions

- 1) Production and marketing of patta painting items should be organized and streamlined.
- 2) Loans at low interest rate should be provided to the member craftsmen.
- 3) Regular exhibitions should be organized and advertisements should be made in media including T.V.

According Mr. Ramesh Mahapatra ,one of the renowned chitrakara, Puri.

Problems

- 1. Due to uncertain & low income from this craft, most of the craftsmen are switching over to other profession.
- 2. The of production of crafts in Raghurajpur is not organized.
- 3. Without assessing the marketing of their items, they prepare on their own and keep in their house. Sometimes their rare and very beautiful creations get wasted.
- 4. There is lack of capital in the hands of the craftsmen to modernize the craft.

Suggestions

1. The patta paintings should be standardized through scientific quality control.
2. There should be restriction on machine produced patta painting in the market.
3. Marketing of the patta painting should be properly organized.
4. Different and various new products and designs should be introduced in this craft.
5. Loan should be provided to the craftsmen.

Stone Carving

**According to Sudershan Sahoo, stone carver & exporter,
Bhubaneswar, Orissa**

Problem

1. Marketing is the main problem and for this reason the crafts person are facing various problem.
2. In Orissa market the demand of this craft is less. They can go for foreign market to get good return from their products.
3. Process of making this craft is stereotype.

Suggestions

1. Carvers should make the craft in such a way, that, everybody will attract towards it.
2. Sample should be 60% or 70% good then, when the bulk order will come, they can meet the specifications.

3. Time period for delivering the item should be in time. Items should be produced in time unless they will not accept the products.
4. Put the right price for each item every time.

**According to Duryodhan Mahapatra, Stone Carver & Exporter,
(National Award Winner), Bhubaneswar, Orissa.**

Problem

1. The process of making a sculpture is same as the past. The artist uses the some tool kit, chipset and hammer for the making of a sculpture. The technique is typical and traditional, which is very hard and labourious. They were unaware of modern machines and techniques.
2. Marketing is the main problem and stands as a barrier for the promotion of this craft.
3. Illiterate as most of the artist, make them depend on dalals for the promotion of their craft and to earn lively hood. They are taking undue advantages.
4. No Govt. patronization, there is no such scheme for this craft by the Government, some Govt. organization, those are running for the artists are not working properly as the administrators and they have no direct link with the artists and their work.

Suggestion

1. The artists should have to use new equipment, which are easy to use and more fruitful than the prevailing ones. The grinders and

- cutters can be introduced these days. They are very time consuming.
2. With change in outlook of the present customers, artists have to work accordingly, which can fulfill the requirement of the customers. So artists, in order to satisfy and for the promotion of this business should know the art of modern making and work according to the taste of the customers.
 3. Marketing is very essential for a business, which is the main and growing problem in this business. Govt. should take necessary action regarding this problem. An artist individually can also solve this problem by opening websites and through advertisement and for that he should.

CONCLUSION

We present the impressions about the craft and possible suggestions for the improvement of the crafts of the famous craftsmen who have devoted their entire life in the pursuit of all artistic crafts. They are the masters of the handicrafts, which they have been pursuing relentlessly with great devotion for years. As far as the silver filigree is concerned unless the craftsmen are paid better wages, filigree market is organized and quality of products is controlled, the craft will soon perish. In case of appliqué many of the master craftsmen are not willing to make any new designs due to fear of copying. So government should take steps for preventing duplicating of designs. Design registration should be done. Government should help the artisans to take part in different mela, exhibitions etc. Like other craft in case of stone carving marketing is the main problem which should be taken care of process of making the craft should be improved. In case of pattachitra the market is not organized. Lack of capital in hands of craftsmen to modernize the patta painting is a

great hindrance in the progress of the craft. So different new products should be introduced. There should be restriction on machine produced patta painting in the market. Loan should be provided to the craftsmen.

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Green Growth Strategy in Corporate Strategy: Stakeholder Approach

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Received Apr. 10, 2010, Revised Oct. 15, 2010, Accepted May 3, 2011

ABSTRACT

The article is devoted to the process of the green growth strategy embedding into the general corporate strategy. One of the assumptions considered is that the relationships between an organization and its stakeholders (including those connected to ecological issues) are based not only on ethical, but also on some economical reasons, since the effectiveness of stakeholders' operations is tightly connected to the effectiveness of the organization. The main emphasis of the article is the solution of concurrent stakeholders' needs proportional satisfaction problem. In order to solve the problem the model which allows assessment of significance of stakeholders and their needs was developed. The model results make possible the determination of the margin beyond

which any further ecology oriented investments start not to strengthen the organization's competitive advantages, but to weaken them.

Keywords: *Green growth strategy, Corporate strategy, Stakeholder concept*

INTRODUCTION

A sustainable growth of an organization assumes the integrated approach to economical, social and ecological problem solving. A sustainable organization is not only an organization which sustainably provide profits, but also a “good” one, which makes social and ecological (green) investments and follows appropriate standards (for example ISO 14001, SA 8000), conducting a dialog with different stakeholders.

The corporate sustainability concept is tightly connected to the corporate social responsibility concept, which in turn tightly connected to the stakeholder concept. The corporate social responsibility, which is treated like an organization's rational response on the system of contradictory stakeholders' expectations targeted on the organization's sustainable development, could also be treated as an element of competitive strategy since the stakeholders network is the source of competitiveness and of organization's wealth potential. Taking this into account, the development and support of relevant “relationship assets” becomes the key competence of management and the main mean for sustainable development of a business (Post at al., 2002). Within the framework of corporate social responsibility concept these issues relate to so called strategic corporate responsibility.

The stakeholder concept considers actions and decision making in an organization relying on the necessity of satisfaction of

multidirectional stakeholders' needs, when each stakeholder has its own interest and certain ability to control the organization. These stakeholders may include clients, suppliers, shareholders, managers, employees, state agencies, ecological organizations, society as a whole, etc.

An organization brings the social responsibility strategy into effect essentially with respect to its stakeholders. That's why stakeholders have interest in the sustainable development of the organization, since increase of effectiveness of the organization's activities leads to increased effectiveness of stakeholders' operations. From this prospective the organization "is engaged in mobilizing resources for productive uses in order to create wealth and other benefits (and not to intentionally destroy wealth, increase risk, or cause harm) for its multiple constituents, or stakeholders (Post at al., 2002, p. 17).

The stakeholder concept, being one of the fundamental concepts of organization in the developed economy, could also be considered as self-sufficient branch of general and strategic management research. The flow of publications on the corresponding subject remains indefatigable for a period of quarter of a century. This implies the theoretical and practical significance of the approach and, in turn, its incompleteness and internal inconsistency (Tambovtsev, 2008).

The absence of methods for determination of stakeholders' satisfaction ratio is one of the main issues in stakeholder concept. It is obvious, for example, that material ecological investments could come into collision with need of employees in salary increase, and with need of shareholders in increased profitability (absolute implementation of all legal ecological standards is obviously assumed). Such the ecological investments are going to serve as the brake, not the engine of competitive advantage. As the result, decrease of effectiveness of the particular organization could

negatively affect its “green” policy and, finally, effectiveness of partners, including ecological and other NGO’s.

Therefore the implementation of the ecologically-oriented growth strategy (as well as any other specific strategy) into the corporate strategy of an organization claims for the solution of the above-mentioned problem.

In this context we’d like to introduce the model, which allows the quantitative assessment of comparative significance of stakeholders (and their needs) from the organization’s strategy prospective, making basis for the rational prioritizing of relationships between organization and its stakeholders.

MODEL OF ASSESSMENT OF SIGNIFICANCE OF STAKEHOLDERS AND THEIR NEEDS

The framework of the introduced approach comes up from the assumption about existence of system of goals of the organization as some organization-wide idea, elaborated in accordance with some general procedure, taking different stakeholders’ points of view into account, and also the assumption about necessity of stakeholders and their needs ranking, with concurrent understanding of the iteration nature of these processes.

The existing approach, based on comparison of subjective quasi-rents (relationships between quasi-rents of the organization and its particular stakeholder, emerging from the agreement between them (Gurkov, 2007)) allows explanation of differences between significance of different stakeholders and their needs. However, this approach could hardly be taken as the basis of formalized ranking procedure due to practical complexity in formalization of stakeholders’ goal functions. Even if it seems technically possible, accompanying costs are typically extremely high.

Several approaches to estimation of stakeholders' significance are based on their specific attributes (look: (Freeman, 1984; Mitchell et al., 1997; Frooman., Murrell, 2005)). These approaches allow stakeholders ranking (they define partial (linear) order on the set of stakeholders) but they are not well designed for making numerical estimations of stakeholders significance in form of weight coefficients, and practically they aren't connected to the resource input of a stakeholder.

Considering stakeholders as partners of the organization lead us to the development of the following model of assessment of significance of stakeholders and their needs.

First, we need to consider the following hierarchy (Fig. 1).

At the first step the weight coefficients of impact made by strategic goals on the implementation of mission (generalized picture about the future of the organization, described in mission statement, vision and strategic priorities) are assessed. Taking into account the collection of strategic goals is usually the complex hierarchy itself, one could use the model, introduced in (Maltseva, Lugovoy, 2005) for assessment of relative significance of each goal.

Further, the set of resources needed for the accomplishment of each strategic goal is determined. Since different resources have different impact on the accomplishment of a goal, and a resource could be involved in accomplishment of a number of goals, weights for the entire set of resources could be assessed with Analytic Hierarchy Process (Saaty, 1980). A stakeholder could have different levels of satisfaction for different resources received in the process of resource exchange. The resource exchange process usually has some time extent. For instance, the use of ecologically pure materials could take effect (for consumers, society, state) after years. The positive image development would be extended for years, in turn.

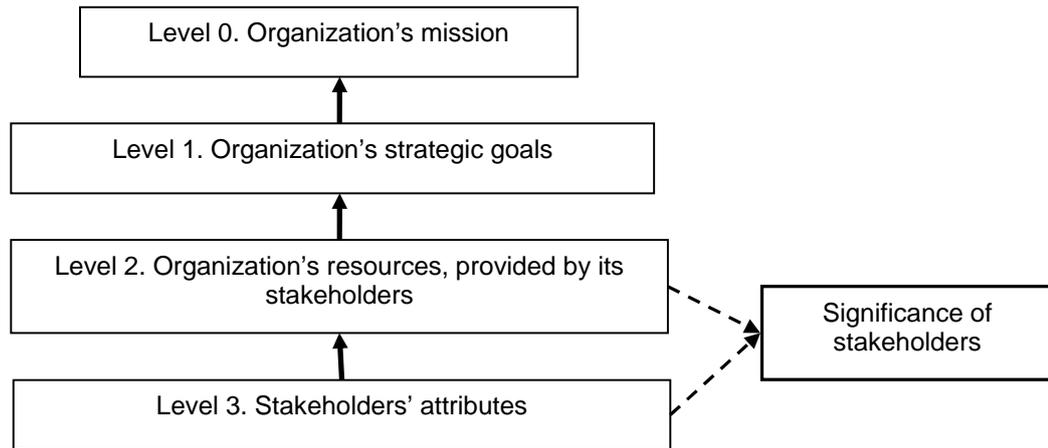


Figure 1. Hierarchy of elements in the stakeholders' significance estimation model

This phenomenon forces organization (stakeholder) to orient itself on certain partner's attributes which directly influence the quality and quantity of resource received (Fig. 2).

Therefore, attributes of stakeholders delivering resources to organization are assessed at the third stage. Sets of attributes in line with each resource (sum of weights of attributes should be equal to 1 for each set) is of our interest at this stage. After that the implementation of attributes is determined for each stakeholder with some scale (for example from 1 to 10).

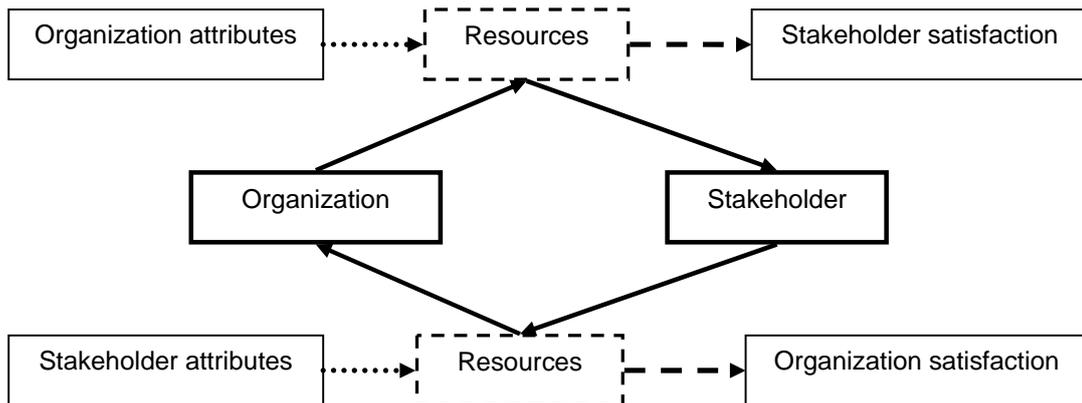


Figure 2. Extended organization-stakeholder resource exchange pattern

The significance of k -th stakeholder ($w(k)$) could be determined as a sum of normalized significances of resources given to the organization. The essence of the normalization is as follows. If the resource is provided solely by this stakeholder than its significance is multiplied by the weighted sum of significances of stakeholder's attributes, divided by 10. If all attributes are fully implemented for the stakeholder (their implementations are 10 each), than the normalization coefficient is 1 and the resource weight wouldn't change. Than worse attributes are implemented for the stakeholder, the less would be the normalized weight for the resource (since the organization is expected to receive the resource in less quantity and quality than desired in this case.). If the organization receives the resource from several stakeholders, the weight coefficient of the resource is divided among these stakeholders proportionally to the

quantity of received resource, then it is normalized. The normalization coefficient would be different for different stakeholders because of different implementation of attributes (even the sets of attributes could be different for different stakeholders for the same resource).

Actuality of i -th need ($a_i(k)$) is assessed through its relative significance ($v_i(k),\%$) in the structure of other needs of k -th stakeholder and through the level of satisfaction of the stakeholder with implementation of this need by the organization ($r_i(k)$), expressed numerically between 0 (the need is not implemented) and 10 (completely implemented):

$$a_i(k) = \frac{v_i(k)}{100} \cdot (10 - r_i(k)) \quad (5)$$

The significance of stakeholders' needs for the organization could be assessed as:

$$a'_i(k) = \frac{a_i(k)w(k)}{\sum_{k=1}^n \sum_{i=1}^{s(k)} a_i(k)w(k)}, \quad i = \overline{1, s(k)}, \quad k = \overline{1, n}, \quad (6)$$

where $s(k)$ — number of needs of k -th stakeholder.

CONCLUSION

The considered model could significantly simplify the procedure of choice of proportion for concurrent stakeholders' needs satisfaction. The importance of this managerial decision is determined by its consequences for organization's competitive potential. The model could specifically be helpful in the definition of a margin, beyond which any further ecology oriented investments would rather weaken the organization's competitive advantages.

It should be emphasized that the considered model for stakeholders' significance assessment allows decreasing the opportunistic management behavior materially. If management is interested in increased effectiveness of the organization (strategy of long-term effectiveness is active) the proposed model allows to avoid the danger of management's subjective hierarchy of stakeholders and their needs translation into organization's activity and gives objective information for relations development with stakeholders.

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June 30, 2011

ISSN: 1975-8480

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