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Public and Private Banks: Can't Tell the Difference

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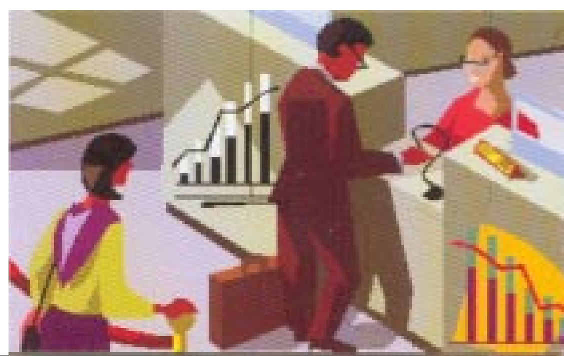
Few people would expect public sector shares to do as well as those of the private sector, especially when the shares happen to be those of public sector banks (PSBs). Yet, as a study by Professor T.T. Ram Mohan of the Finance & Accounting area shows, listed PSBs have done as well at the bourses as their private sector counterparts.

Professor Ram Mohan evaluated returns to public sector bank stocks (PSBs) consequent to disinvestment by comparing these with respect to a reference index, namely, the 30-share Bombay Sensex. He then estimated the returns to private sector bank stocks with respect to the reference index and used this data to compare public and private sector bank performance. This study supplements earlier studies (including his own) that have compared private and public sector bank performance by looking at standard financial ratios. Comparisons of bank performance based on financial ratios suffer from the problem that financial ratios might overstate performance because of inaccurate reporting of non-performing assets (NPAs) or because NPAs tend to be lower in the initial years in the case of newly established banks. Stock prices may, however, capture performance more accurately because markets, including ours, are reasonably efficient in incorporating information that may escape financial statements.

The study estimated holding period returns for a total of 24 banks – nine PSBs, eight old private sector banks, and seven new private sector banks. Holding period returns are those that would accrue to an investor who bought the stock on the first day and held on to it until the last day. Holding period returns were measured over a period starting from the first trading date on the Bombay Stock Exchange up to November 30, 2002. Returns were computed on an unadjusted basis as well on a risk-adjusted basis using the well-known Capital Asset Pricing Model. The means of both unadjusted and adjusted returns for each of the three categories of banks were compared with returns to the Sensex – this gave the relative returns for each category.

Two important findings emerged. One, the performance of PSBs as a category was not significantly different from that of the Sensex on unadjusted or risk-adjusted basis. Two, the performance of PSBs was not significantly lower than that of either of the other two categories. This was true on an unadjusted basis as well as on a risk-adjusted basis. The comparisons of stock price performance suggest that, in the perception of the market, PSBs as a category can withstand competition from today's private banks. This finding has important implications for policy. It undermines the proposition that disinvestment, the mere dilution of government equity in PSBs, cannot possibly contribute to any improvement in performance and that government control must cease altogether. Consequent to disinvestment, PSBs have performed as well as the Sensex and private sector banks. This suggests that listing on the exchanges, a profit orientation, and a measure of autonomy can together produce improvement in performance and that a transfer of ownership is not a pre-condition for such improvement.

Ram Mohan, T.T., "Long-run Performance of Public and Private Sector Bank Stocks in India," *Economic and Political Weekly*, 38, 8 (February 22, 2003), 785-788.



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Work and Family Roles of Professional Men and Women in India

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For understanding an individual's attitudes towards work and family roles, the developmental approach has been gaining popularity among the western researchers for its dynamic and comprehensive perspective. This approach sees work and family life not as static phenomena but as an evolving reality, which offers individuals different constellations of challenges and choices at different stages of development. The developmental approach addresses issues relating to work-family interfaces and it also allows for a different view of the adult development of women by acknowledging that developmentally women are different from men. According to this approach while both men and women grapple with the developmental issues of attachment and separation in their work and family roles at different life stages, they seem to resolve these conflicts in different ways. The development process of women appears to be the mirror image of that of men. Men seem to begin their adult life with an emphasis on individuality and workplace achievement at the expense of other roles and move towards connectedness at a later phase of their life. Women, on the other hand, seem to begin their adult life by valuing connectedness with significant others more than autonomy and individual achievement, and move towards accepting separation and expression of individual excellence as recognition of self at a later stage.

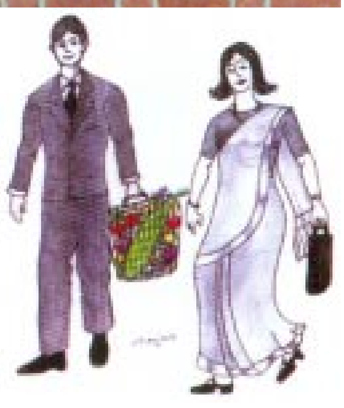
The paper by Professors Deepti Bhatnagar (faculty at IIM, Ahmedabad) and Ujvala Rajadhyaksha (faculty at IIT, Bombay) explores whether the attitudes to work and family roles of professional men and women in India follow the pattern suggested by adult development theories. Propositions based on the adult development theories of men and women, regarding reward value derived from and commitment made to the occupational, parental, marital, and homemaker roles over the life cycle, were tested. It was found that the evolving work and family roles for professional men and women in India present an intricate web of attitudes towards these roles, some of which change with time, whereas others remain tenaciously stable over the years. As far as the work role was concerned, attitudes towards the role did not vary with changes in life stage. Instead they varied depending on gender. Reward value and commitment to the work role was greater for men than for women, and it stayed this way throughout the life span of individuals. This suggests the perpetuation of traditional beliefs in the midst of change. While women acquire professional training and play professional roles, in comparison to occupational roles the salience of women's commitment to family roles – so often emphasized in the Indian culture as being central to their very being – remains undiminished.

With regard to roles within the family domain, there were some age-related differences. Thus attitudes towards the parental role seemed to change over the life cycle depicting an increasing trend. Attitudes towards the marital role too changed over the life cycle, and in general there was a decreasing trend in marital role commitment. However, attitudes towards the homemaker role did not vary across the life cycle. In general, commitment to this role appeared to be higher among women than among men.

The above results indicate that in the Indian context, attitudes towards work and family roles of professional men and women can be better understood by looking at the forces of gender role socialization rather than the processes of adult development. It appears that even in the case of dual-career couples where both partners are equally qualified and working in professional jobs, the work identity is more strongly developed among men, whereas the homemaker identity is relatively more strongly developed in women. What is noteworthy from this study is that these identities are "sticky" – they do not change with age. Men enter the work-family role system with a certain understanding about their involvement and commitment to the work role and the homemaker role, which stays constant. The same is true for women.

While coping with severe pressure on their limited time and energy resources that often characterizes a dual-career lifestyle, partners seemed to place greater value on the parental role that required constant nurturance than the marital role that could be given a lower priority. Results showed that the "reversal in attitudes" rather than appearing between work and family roles restricted itself within the family roles, more specifically to the marital and parental roles. Results highlighted the need for new theories to capture multiplicity in attitudes to work and family responsibilities across different cultures. Only when such studies are nested in different cultures can we begin to understand the complexity and richness of work-family roles and experiences in different societies.

Professor Bhatnagar's co-authored paper was a nominee for the annual Rosabeth Kanter Award for Excellence in Work-Family Research.



Bhatnagar, D. and Rajadhyaksha,U. (2002). "Attitudes Towards Work and Family Roles and Their Implications for Career Growth of Women: A Report from India," *Sex Roles*, Vol. 45 (7/8).

Corporate Dividend Policy and Behaviour

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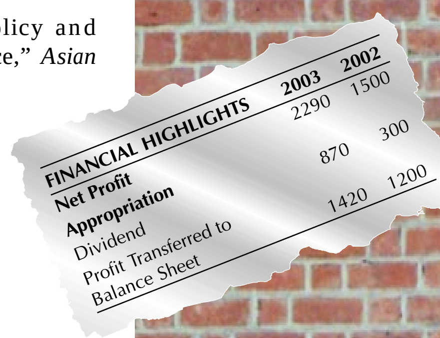
Most companies everywhere feel they must pay dividends. It is a popular belief that most investors also expect companies to pay dividends. Unfortunately, we do not yet have an acceptable explanation for the observed dividend behaviour of companies. Nobel-laureate Professor Fisher Black, way back in 1976, asked: "Why do corporations pay dividends? Why do investors pay attention to dividend?" His answer was: "We do not know". This 'dividend puzzle' still remains unresolved. It has been a long-standing position of Professors Miller and Modigliani, both Nobel-laureates and some other finance researchers, that dividends are irrelevant and they have no influence on the share price in a well functioning capital markets. Some went to the extent of suggesting that dividends destroy value! Of course, some die-hards believe that capital markets are not well functioning and therefore, dividends ought to matter. Notwithstanding this continuing debate, studies in a number of countries indicate that both managers and investors favour payment of dividends. Most companies in the developed countries distribute a good part of their earnings as dividends, and they also maintain stability of dividend. Professor Lintner of Harvard University was the first to find this behaviour of US companies as far back as 1956. Firms in US and other developed markets have target dividend payout ratios, and they adjust their dividend policy to this target. The long-term sustainable investment and growth objectives determine the firm's target payout ratios. Further, firms pursue a stable dividend policy and gradually increase dividends given the target payout ratio. This implies that firms set a speed to move towards the full achievement of payout. Thus, it is suggested that firms establish their dividends in accordance with the level of current earnings as well as dividend of the previous year. Professor Lintner also found that American managers believe that investors prefer firms with stable dividend policies.

Are dividend payments of companies in emerging markets of, say, Asia tied to earnings changes? Do they follow long-term stable dividend policies like their counterparts in developed markets? Our study of firms of the emerging market of Malaysia shows that firms increase payment of dividends when their earnings increase; and they are reluctant to skip dividends when earnings fall. However, they do tend to omit dividends when they suffer losses. A formal analysis employing *multinomial logit* technique reveals that the short-term dividend actions of firms in the fast growing but emerging Malaysian economy are sensitive to earnings changes. There is a high probability of dividend increase when earnings increase. Similarly, the chances are high that dividend will be reduced if earnings fall. There is very high probability of dividend omission when Malaysian firms face negative earnings.

Despite short-term dividend payments being influenced by current earnings, do firms in Malaysia follow a long-term policy of dividend stability? In order to control for both the individual firm and the time-variant factors that could affect firms differently, we employ a two-way firm and time fixed effects regression model. This approach allows us to establish the underlying dynamic relationship between current dividend as dependent variable and current earnings and past dividend as independent variables. We find that like firms in developed markets, Malaysian firms rely both on past dividend and current earnings in deciding the current period's payment of dividends. Further, our results uncover that these firms have lower target ratios and higher adjustment factors. This implies low smoothing and relatively low stability of dividend policy in the emerging Malaysian market. The implication is that a relatively unstable dividend policy would cause higher variability in the otherwise turbulent emerging stock markets and could destroy shareholders' wealth. Managers in the emerging markets need to learn the importance of creating sustainable long-term wealth for shareholders rather than espousing a harmful short-term policy.

There are many other aspects of dividend policy in the emerging markets for future research. One issue is regarding the effect of firm size on dividend policy. Do large firms pay less or more dividends than small firms? Why? Yet another issue is the interaction between the capital structure and dividend policy of companies. For example, in India the funds flow analysis of companies shows that a large number of them simultaneously raise external funds (through rights issues many times) and pay dividends. Isn't earnings retention a cheaper way of raising funds for growing, profitable companies? What do they gain by giving away cash on the one hand and taking it back by the other hand? Rather, they incur transaction costs in doing so. How does the pattern of ownership of companies in the emerging markets influence dividend policy?

Pandey, I.M., "Corporate Dividend Policy and Behaviour: The Malaysian Evidence," *Asian Academy of Management Journal*, Vol. 8, No.1 (January 2003), pp.17-32.



Spectrum Auctions in India: Lessons from Experience

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With private initiatives increasing in telecom and broadcast service provision, demand for spectrum has increased. Digital technology has increased the scope of applications and created new areas of service provision. Cellular telephony and wireless Internet are examples of such services. Despite technological changes that reduce the demand for spectrum, its availability continues to be a constraint. In order to allocate spectrum amongst competing service providers, regulatory agencies use several mechanisms such as comparative hearings or beauty parades, lotteries and / or auctions. The Federal Communications Commission (FCC), had used all these three methods in the past before adopting auctions for future licences for wireless services.

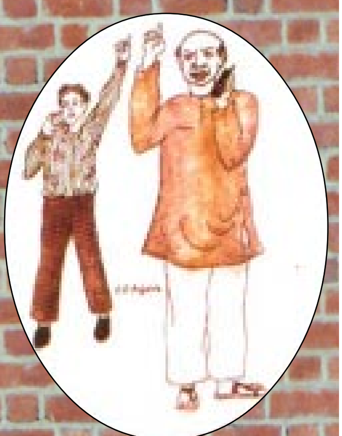
From the regulatory and policy perspective, spectrum auctions ensure efficient usage by allocating it to those entities that value it most, while also generating revenues for governments. But auctions may lead to unexpected outcomes as, for example, when regulatory agencies have inadequate market information. There may be a mismatch between expected and actual bidder behaviour, or auctions may be poorly designed. The key challenge before regulatory agencies is to design auctions in such a way as to meet the objective of fostering competition while at the same time ensuring that bidders can effectively use the spectrum for their business.

While learning about auction design issues has considerable value, an equally important aspect is the management of post-auction processes. Even the most carefully designed auctions have had some problems in the post-auction phase. Regulators need to be able to deal with the emergent issues. For example, FCC had to give away the spectrum to minority owned businesses under more liberal terms than what was originally bid for. In India, several states had no bidders at the end of the bidding process, possibly due to the inappropriate design of the bidding units.

While theory is important in understanding the auction design elements and their inter-relationships, experience of auction processes across countries shows that it is important to understand the prevailing context and find mechanisms to embed it in the design. For example, in the United Kingdom, auction design took into account the government's desire to have fresh entrants in 3G service provision.

While India was one of the early adopters of spectrum auctions, its success in service provision has been modest. This paper critically examines the issues in auction design for the two phases of licensing, namely in the fixed services and GSM 900 MHz (first phase) and cellular licensing in the 1800 MHz band (second phase) that used different auction designs. Further, it reviews the key elements in the design process; a coherent regulatory framework, choice of service areas, flexibility for service area consolidation, standards and their role, convergence, managing public service regulation, and managing defaults. The paper compares the design and implementation of these elements in the United States, United Kingdom, and Australia with the objective of drawing lessons for policy makers and regulators involved in the design of auctions.

Jain, R. (2001). "Spectrum Auctions in India: Lessons from Experience," *Telecommunications Policy*, 25, 671-688.



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