CHAPTER 3

REVIEW OF LITERATURE

3.1 REVIEW OF LITERATURE

The review of the past studies in research means to note the observation, search and many more things done in the past regarding the question in the hand. It is base of natural and social sciences. It provides introduction regarding the researches the researches worked out in the past. It provides details regarding the tool used, procedures adopted, conclusion and observation made. It also guides how to the introduction and data should be collected and from where and how it could be. All this information can be had from this type of study. The study of the past researches is useful to define the sphere of our research. It saves time, energy and helps indirectly towards a particular goal.

3.1.1 Meaning

Study of the related literature implies locating, reading and evaluating reports of research as well as report of causal observation and opinion that are related to the individual planned research project.

According to Walter R. Borg, “the literature in any field forms the foundation upon which all future work will be built”.

3.1.2 Literature survey for the existing work

Reviewing of the literature in the area of research is a preliminary step before attempting to plan the study. A thorough knowledge of the research topic can be guided only by reviewing any part research work and other literature related with the topic.

More recently, the “return on quality” model has provided a methodology for projecting a firm’s ROI in service quality (Rust, Zahorik, and Keiningham 1994, 1995). Research has shown that there may be trade-offs between service quality improvements that increase revenue and those that reduce costs (Anderson, Fornell,
and Rust 1997; Rust, Moorman, and Dickson 2002). Approaches to evaluating financial return have also begun to consider the element of financial risk (Davis 2002; Hogan et al. 2002), as is common in corporate finance.

Although changing customer attitudes, perceptions, and intentions are important, and achieving improved sales and market share is essential to any marketing effort, many managers consider financial impact the most crucial measure of success for any marketing effort. Financial impact involves not only the increase in revenues but also the expenditure required to produce that increase. Marketing expenditures are considered investments, and the financial return is measured as ROI. The long-standing recognition of the importance of ROI in evaluating more general marketing expenditures (Kirpalani and Shapiro 1973) led to early methods for measuring advertising ROI (Dhalla 1976). The connection between marketing efforts and financial performance was subsequently reinforced by analysis of the PIMS company database, which indicated a positive relationship between market share and the firm’s aggregate return on net assets (Buzzell and Gale 1987), though that relationship was later challenged on methodological grounds (Jacobson and Aaker 1985). Gale (1994) recanted and later proposed that market share and financial performance were both driven by product quality, though the link between perceived and actual quality is itself complex.

### 3.2 EARLY BEGINNINGS

Marketers have always recognized that marketing variables have long-term financial consequences. In an early award-winning paper, Dean (1966) asked whether advertising belonged in the capital budget. He argued that viewing promotion as an investment could result in dramatic changes in decision making, market testing, measurement, and judgments of how much to spend. Subsequently, Webster, Largay, and Stickney (1980) showed how financial accounting requirements have implications for marketing decisions regarding new production introductions, pricing, and the valuation of individual customers and market segments.
3.3 INVESTIGATIONS FOCUSED ON MARKET SHARE AND SALES

The PIMS (Profit Impact of Marketing Strategy) database enabled numerous investigations of the link between marketing variables and profitability. Jacobson and Aaker (1985) used the PIMS database to tackle the question "Is Market Share All That It's Cracked Up to Be?" In their award-winning paper, they reported that the direct effect of market share on ROI was smaller than expected and suggested that marketers should return to fundamentals to determine additional antecedents of ROI.

3.4 LONG-TERM ON BRAND AND CATEGORY SALES

At the same time, researchers worked to estimate the long-term effects of marketing variables. (Some of these efforts are covered in Chapter 7, "Marketing Mix.") Dekimpe and Hanssens (1995, 1999) estimated the long-term effect of marketing activity (specifically, media spending) on sales using persistence modeling based on time-series observations of sales and marketing expenditures. The total or long-term advertising effect comes about as a combination of consumer response, competitive reaction, and firm decision rules effects. Dekimpe and Hanssens showed that an advertising medium with lower short-term impact can have a higher long-term effect. Thus, traditional approaches can underestimate the long-term effectiveness of marketing.

Instead of examining brand sales, Nijs et al. (2001) used multivariate time-series analysis to investigate the conditions under which price promotions expand short-term and long-term category sales. They conducted a large-scale empirical study of the effects of prices, promotions, advertising, distribution, and new product activity on national sales of 560 perishable and nonperishable consumer product categories in Dutch supermarkets over a four-year period. Their study allowed them to make empirical generalizations about how marketing intensity and competition influence the short-term and long-term effects of marketing variables. For example, they found category demand to be (typically) stationary around a fixed mean or deterministic trend, with any price promotion effects dissipating within 10 weeks. Higher levels of nonprice advertising, more new product introductions, and competitive intensity reduced price promotion effects. They concluded that price promotions primarily preserve the status quo.
Another way to assess the long-term effects of marketing variables is to study individual consumers' brand choice behavior over time. Mela, Gupta, and Lehmann (1997) studied eight years of panel data for a frequently purchased packaged good and assessed the quarterly effects of price, promotion, and advertising, as well as their long-term effects (i.e., over an infinite horizon). Their results suggest that consumers become more price and promotion sensitive over time because of reduced advertising and increased promotions.

3.5 CONCEPTUAL FOUNDATIONS FOR CONSIDERING FINANCIAL RETURNS

More than a decade after the PIMS effort, marketers' attention shifted from market share and sales to more sophisticated financial outcomes. Srivastava, Shervani, and Fahey (1998) developed a conceptual framework that proposed that marketing's task is to develop and manage market-based assets (defined as assets arising from the firm's interactions with its environment), such as customer, channel, and partner relationships. They argued that such market-based assets increase shareholder value by accelerating and enhancing cash flows, lowering the volatility and vulnerability of cash flows, and increasing the residual (long-run annuity) value of cash flows. Their paper stimulated additional work on this topic, including several papers published in an MSI-sponsored special section of the October 2004 issue of the Journal of Marketing entitled "Linking Marketing to Financial Performance and Firm Value".

3.6 DOES ADVERTISING BELONG IN THE CAPITAL BUDGET?

Whether advertising is an investment and so should be treated like other parts of the capital budget is a question of moment to marketing managers. Viewing promotion as an investment could bring dramatic changes in decision-making, market-testing, measurements of effectiveness, and value judgments that are required in determining how much to spend on promotion. The economic case for an investment approach to the advertising budget is the theme of this article by a distinguished economist. (Dean, Joel, 1966, Journal of Marketing 30 (4), October 1966)
3.7 THE PERSISTENCE OF MARKETING EFFECTS ON SALES

Are marketing efforts able to affect long-term trends in sales or other performance measures? Answering this question is essential for the creation of marketing strategies that deliver a sustainable competitive advantage. This paper introduces persistence modeling to derive long-term marketing effectiveness from time-series observations on sales and marketing expenditures. First, we use unit-root's tests to determine whether sales are stable or evolving (trending) over time. If they are evolving, we examine how strong this evolution is (univariate persistence) and to what extent it can be related to marketing activity (multivariate persistence). An empirical example of sales and media spending for a chain of home-improvement stores reveals that some, but not all, advertising has strong trend-setting effects on sales. We argue that traditional modeling approaches would not pick up these effects and, therefore, seriously underestimate the long-term effectiveness of advertising. The paper concludes with an agenda for future empirical research on long-run marketing effectiveness.

3.8 SUSTAINED SPENDING AND PERSISTENT RESPONSE: A NEW LOOK AT LONG-TERM MARKETING PROFITABILITY

An intuitively appealing decision rule is to allocate a company's scarce marketing resources to where they have the greatest long-term benefit. This principle, however, is easier to accept than it is to execute, because long-run effects of marketing spending are difficult to estimate. The authors address this problem by examining the behavior of market response and marketing spending over time and identify four common strategic scenarios: business as usual, hysteresis in response, escalation, and evolving business practice. The authors explain and illustrate why each scenario can occur in practice and describe its positive and negative consequences for long-term profitability. The authors propose to use multivariate persistence measures to identify which of the four strategic scenarios is taking place and illustrate this approach in the pharmaceutical and packaged-food industries. The results substantiate the authors' proposition that the strategic scenario is a major determinant of marketing effectiveness and long-term profitability. This conclusion sets up a substantial agenda for further research.
3.9 IS MARKET SHARE ALL THAT IT'S CRACKED UP TO BE?

The market share-ROI relationship is examined to determine the extent of the causal versus spurious association. By making use of the PIMS database, it is found that a large proportion of the association is spurious in the sense that both market share and ROI are the joint outcome of some third factor(s). The direct impact of market share on ROI is found to be much smaller than previous studies have indicated. It is suggested that too much emphasis is placed on market share and that more attention needs to be focused on other fundamentals.

3.10 THE LONG-TERM IMPACT OF PROMOTION AND ADVERTISING ON CONSUMER BRAND CHOICE

The authors examine the long-term effects of promotion and advertising on consumers' brand choice behavior. They use 8'/20 years of panel data for a frequently purchased packaged good to address two questions: (1) Do consumers' responses to marketing mix variables, such as price, change over a long period of time? (2) If yes, are these changes associated with changes in manufacturers' advertising and retailers' promotional policies? Using these results, the authors draw implications for manufacturers' pricing, advertising, and promotion policies. The authors use a two-stage approach, which permits them to assess the medium-term (quarterly) effects of advertising and promotion as well as their long-term (i.e., over an infinite horizon) effects. Their results are consistent with the hypotheses that consumers become more price and promotion sensitive over time because of reduced advertising and increased promotions.

3.11 THE CATEGORY-DEMAND EFFECTS OF PRICE PROMOTIONS

An earlier version of this paper appeared as MSI Report No. 00-109, "The Short- and Long-run Category Demand Effects of Price Promotions."

Although price promotions have increased in both commercial use and quantity of academic research over the last decade, most of the attention has been focused on their effects on brand choice and brand sales. By contrast, little is known about the conditions under which price promotions expand short-run and long-run category
demand, even though the benefits of category expansion can be substantial to manufacturers and retailers alike. This paper studies the category-demand effects of consumer price promotions across 560 consumer product categories over a 4 year period. The data describe national sales in Dutch supermarkets and cover virtually the entire marketing mix, i.e., prices, promotions, advertising, distribution, and new-product activity. We focus on the estimation of main effects (i.e., the dynamic category expansive impact of price promotions) as well as the moderating effects of marketing intensity and competition (both conduct and structure) on short-and long-run promotional effectiveness.

The research design uses modern multivariate time-series analysis to disentangle short-run and long-run effects. First, we conduct a series of unit-root tests to determine whether or not category demand is stationary or evolving over time. The results are incorporated in the specification of vector-autoregressive models with exogenous variables (VARX models). The impulse-response functions derived from these VARX models provide estimates of the short- and long-term effects of price promotions on category demand. These estimates, in turn, are used as dependent variables in a series of second-stage regressions that assess the explanatory power of marketing intensity and competition. Several model validation tests support the robustness of the empirical findings. We present our results in the form of empirical generalizations on the main effects of price promotions on category demand in the short and the long run and through statistical tests on how these effects change with marketing intensity and competition.

The findings generate an overall picture of the power and limitations of consumer price promotions in expanding category demand, as follows. Category demand is found to be predominantly stationary, either around a fixed mean or a deterministic trend. Although the total net short-term effects of price promotions are generally strong, with an average elasticity of 2.21 and a more conservative median elasticity of 1.75, they rarely exhibit persistent effects. Instead, the effects dissipate over a time period lasting approximately 10 weeks on average, and their long-term impact is essentially zero. By contrast, the successful introduction of new products into a category is more frequently associated with a permanent category-demand increase. Several moderating effects on price-promotion effectiveness exist. More frequent
promotions increase their effectiveness, but only in the short run. The use of nonprice advertising reduces the category-demand effects of price promotions, both in the short run and in the long run.

Competitive structure matters as well: The less oligopolistic the category, the smaller the short-run effectiveness of price promotions. At the same time, we find that the dominant form of competitive reaction, either in price promotion or in advertising, is no reaction. Short-run category-demand effectiveness of price promotions is lower in categories experiencing major new-product introductions. Finally, both the short- and long-run price promotion effectiveness is higher in perishable product categories. The paper discusses several managerial implications of these empirical findings and suggests various avenues for future research. Overall, we conclude that the power of price promotions lies primarily in the preservation of the status quo in the category.

3.12 RETURN ON MARKETING: USING CUSTOMER EQUITY TO FOCUS MARKETING STRATEGY

The authors present a unified strategic framework that enables competing marketing strategy options to be traded off on the basis of projected financial return, which is operationalized as the change in a firm's customer equity relative to the incremental expenditure necessary to produce the change. The change in the firm's customer equity is the change in its current and future customers' lifetime values, summed across all customers in the industry. Each customer's lifetime value results from the frequency of category purchases, average quantity of purchase, and brand-switching patterns combined with the firm's contribution margin. The brand-switching matrix can be estimated from either longitudinal panel data or cross-sectional survey data, using a logic choice model. Firms can analyze drivers that have the greatest impact, compare the drivers' performance with that of competitors' drivers, and project return on investment from improvements in the drivers. To demonstrate how the approach can be implemented in a specific corporate setting and to show the methods used to test and validate the model, the authors illustrate a detailed application of the approach by using data from the airline industry. Their framework enables what-if evaluation of marketing returns on investment, which can include such criteria as return on quality, return on advertising, return on loyalty programs, and even return on corporate citizenship, given a particular shift in customer perceptions. This enables
the firm to focus marketing efforts on strategic initiatives that generate the greatest return.

3.13 GETTING RETURN ON QUALITY: REVENUE EXPANSION, COST REDUCTION, OR BOTH?

An earlier version of this paper appeared as MSI Report No. 00-1 20, "Getting Returns from Service Quality: Is the Conventional Wisdom Wrong?"

Financial benefits from quality may be derived from revenue expansion, cost reduction, or both simultaneously. The literature on both market orientation and customer satisfaction provides considerable support for the effectiveness of the revenue expansion perspective, whereas the literature on both quality and operations provides equally impressive support for the effectiveness of the cost reduction perspective. There is, however, little evidence for the effectiveness of attempting both revenue expansion and cost reduction simultaneously, and some of what little empirical and theoretical literature is available suggests that emphasizing both simultaneously may not work. In a study of managers in firms seeking to obtain a financial return from quality improvements, the authors address the issue of which quality profitability emphasis (revenue expansion, cost reduction, or both) is most effective. The authors examine firm performance using managers' reports of firm performance and longitudinal secondary data on firm profitability and stock returns. Although it is clear that no company can neglect either revenue expansion or cost reduction, the empirical results suggest that firms that adopt primarily a revenue expansion emphasis perform better than firms that try to emphasize cost reduction and better than firms that try to emphasize both revenue expansion and cost reduction simultaneously. The results have implications with respect to how both theory and practice view organizational efforts to achieve financial returns from quality improvements.

3.14 RETURN ON QUALITY (ROQ): MAKING SERVICE QUALITY FINANCIALLY ACCOUNTABLE

Many companies have been disappointed by a lack of results from their quality efforts. The financial benefits of quality, which had been assumed as a matter of faith
in the "religion of quality," are now being seriously questioned by cost-cutting executives, who cite the highly publicized financial failures of some companies prominent in the quality movement. In this increasingly results-oriented environment managers must now justify their quality improvement efforts financially. The authors present the "return on quality" approach, which is based on the assumptions that (1) quality is an investment, (2) quality efforts must be financially accountable, (3) it is possible to spend too much on quality, and (4) not all quality expenditures are equally valid. The authors then provide a managerial framework that can be used to guide quality improvement efforts. This framework has several attractive features, including ensured managerial relevance and financial accountability.

3.15 MARKET-BASED ASSETS AND SHAREHOLDER VALUE: A FRAMEWORK FOR ANALYSIS

The authors develop a conceptual framework of the marketing-finance interface and discuss its implications for the theory and practice of marketing. The framework proposes that marketing is concerned with the task of developing and managing market-based assets, or assets that arise from the commingling of the firm with entities in its external environment. Examples of market-based assets include customer relationships, channel relationships, and partner relationships. Market-based assets, in turn, increase shareholder value by accelerating and enhancing cash flows, lowering the volatility and vulnerability of cash flows, and increasing the residual value of cash flows.

3.16 THE IMPACT OF INFLATION ACCOUNTING ON MARKETING DECISIONS

Persistent inflation in the American economy has led accounting rule makers to require large firms to report the effects of inflation on certain of their financial statement data. At present, these adjusted data are to be presented as supplementary disclosures under Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices." One major result will be significant changes in cost estimates and asset valuations. The changes in financial accounting requirements are likely to be reflected almost immediately in managerial accounting procedures, with specific implications for marketing decisions in such areas as new product
introduction, pricing strategy, and the valuation of individual customers and market segments. The authors describe the new accounting data briefly and, using examples, illustrate the implications for marketing managers.

3.17 PERFORMANCE APPRAISIAL OF THE REGIONAL RURAL BANK

The study carried out by Basu (1985) shown that Regional Rural Banks (RRBs) made some notable progress towards inculcating bank-saving habits in their areas of operation, particularly at locations which were unbanked or underbanked in comparison to cooperatives as well as rural branches of commercial banks operating in the jurisdiction of the RRBs. Financial viability of an RRB like any other banking institution is dependent mainly on three factors, i.e., the size of the earning assets, the earning power of these assets and the financing cost of these assets. An RRB therefore, like any other banking organization, must identify different types of assets on the basis of their earning capacities and prefer those sources for raising funds which are comparatively cheap. An RRB should make an earnest effort for utilizing maximum possible refinancing and borrowing facilities for raising its earning assets.

3.18 IMPACT OF MONETARY POLICY ON THE PROFITABILITY OF COMMERCIAL BANKS IN INDIA

Minakashi and Kaur (1990) in their study made a try to measure quantitatively the impact of the various instruments of monetary policy on the profitability of commercial banks. The study concluded that banking is a highly regulated and controlled industry in terms of a strict credit policy followed by the Reserve Bank of India to combat inflationary pressures. To achieve the objective of price stability, directly or indirectly commercial banks have been made the scapegoat. The bank’s profitability has suffered a significant decline during the period under study. The reserve requirement ratio seems to be the most significant instrument of credit control having a negative impact on bank’s profitability. Since the beta co-efficient of the reserve requirement ratio and the share of industries in total bank credit is same, in magnitude with reserve sign; to improve the bank’s profitability, it may be suggested to reduce the variable reserve ratio to increase the diversion of funds towards industries which has a significantly positive impact on bank’s profitability.
3.19 PROFITABILITY IN BANKS, A MATTER OF SURVIVAL

Chidambaram and Alamelu (1994) studied the problem of declining profit margin in Indian public sector banks as compared to their private sector counterparts. It was observed that in spite of similar social obligations, almost all the private sector banks have been registering both high profits and high rate of growth, with respect to deposits, advances and reserves as compared to public sector banks. The regional orientation, better customer service, proper monitoring of advances and appropriate marketing strategies are the secrets behind the success of private sector banks.

3.20 BEYOND ROE, HOW TO MEASURE BANK PERFORMANCE

“Beyond ROE, how to measure bank performance, 2010” is a study conducted by the European Central bank in September to analyze performance in terms of banks’ capacity to generate sustainable profitability. The study favoured using the ROA, market-based performance such as P/B ratio, and Economic-based performance rather than using ROE; as ROE give limited insight about the bank profitability and performance.

3.21 COMPARISON OF FINANCIAL PERFORMANCE IN THE BANKING SECTOR, EVIDENCE FROM OMANI COMMERCIAL BANKS

Medhat Tarawaneh, (2006) used multiple regression analysis and correlations to test the financial performance of Omani Commercial banks. He used the ROA and the interest income as performance proxies (dependent variables), and the bank size, the asset management and the operational efficiency as independent variables. He found positive strong correlation between financial performance and operational efficiency and a moderate correlation between ROA and bank size, in the meanwhile, in his ANVOVA analysis, he found that there exist an impact of those independent variables on the financial performance as the F-stat is significant and below the 5%.

3.22 FINANCIAL PERFORMANCE EVALUATION OF SOME SELECTED JORDANIAN COMMERCIAL BANKS

Ahmad Almazari (2011), studied the financial performance of seven Jordanian commercial banks. He used the ROA as a measure of banks’ performance and the
bank size, asset management and operational efficiency as three independent variables affecting ROA. The results of his analysis revealed a strong negative correlation between ROA and banks’ size, a strong positive correlation between ROA and asset management ratio, and a negative weak correlation between ROA and operational efficiency.

3.23 BANK-SPECIFIC AND MACROECONOMIC INDICATORS OF PROFITABILITY - EMPIRICAL EVIDENCE FROM THE COMMERCIAL BANKS OF PAKISTAN

Khizer Ali, Muhammad Akhtar and Hafiz Ahmed (2011), conducted a comprehensive study about banks’ profitability in Pakistan, where they found significant relation between asset management ratio, capital and economic growth and with ROA. While they found that operating efficiency, asset management and economic growth are significant with the ROE.

3.24 A STUDY OF FINANCIAL PERFORMANCE: A COMPARATIVE ANALYSIS OF SBI AND ICICI BANK

Singhms Anurag. B. and Tandon Priyanka (2012), conducted a study on comparison of financial performance of SBI and ICICI Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study taken is from the year 2007-08 to 2011-12. The study found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI.

3.25 FINANCIAL PERFORMANCE OF SCHEDULED COMMERCIAL BANKS IN INDIA-A STUDY

Subramnayam. K. and Venkateswarlu M. (2012), evaluated the performance of Scheduled Commercial Banks India. The study reveals the overall performance of public sector, private sector and foreign sector banks in India. The Deposits, Total Incomes, Total Expenditures, Operating Profits, and Net Profits of these banks were relatively good performance and increasing year to year, these are identified by using the various parameters noted in the present study. The percentage to total of public
sectors banks share is decreasing year to year and foreign sector banks share is fluctuating. So they should improve their operations. Indian banking system has undergone a drastic change since liberalization. The new generation private sector banks have best used the technology and utilized the manpower in an effective manner and they are professionally managed. These have made them to attract more customers and made them grow faster and stronger.

3.26 A STUDY ON THE FINANCIAL PERFORMANCE OF NATIONALISED BANKS IN INDIA: A POST LIBERALISATION ANALYSIS

Paneer Selvam, R. and Radjaramane, V. (2011), focused on the performance of the nationalized banks in the context of the Indian economy. The performance was being carried out with the help of certain crucial operational variables of the banks including total business, expenditure, deposits, advances, profits etc. For the purpose of identify the relative performance of the operational variables the linear and compound growth rates have been calculated. The growth rates worked out indicated that on the average in the case of a majority of the operational variables, the performance of the nationalized banks followed by private sector banks were found to be higher when compared to SBI and its associates and foreign banks.

3.27 RESEARCH PRIORITIES

There has been substantial progress in tackling research questions regarding metrics, but empirical research has been hampered by difficulties in obtaining financial measures (e.g., costs and profitability). MSI's current research priorities include the following first-tier priorities:

- assessing the impact of marketing programs on financial metrics
- using ROI to allocate resources across function, marketing vehicles, and geographies over time
- valuing intangible assets, such as brand equity and customer equity, and relating them to each other
- linking intermediate marketing program outcomes (e.g., awareness) to financial metrics
• Assessing moderating effects, such as advertising's effects on sales, price premium, sales call effectiveness, and distribution.

So from the above review of literature it is evident that measurement of marketing performance of the organization from finance and quantitative terms become very useful in demand. Looking to this trend the present study attempts to assess marketing performance of selected banks from financial data.
REFERENCES


