CHAPTER II
REVIEW OF LITERATURE

The review of literature guides the researchers for getting a better understanding of the methodology used, limitations of various available estimation, procedures and database and logical interpretation and reunion of the conflicting results. Besides this, the review of empirical studies explores the avenues for future and present research efforts related to the subject matter. In case of conflicting and unexpected results, the researcher can take the advantage of the knowledge of other researchers simply through the medium of their published work.

A large number of research studies have been carried out on different aspects of the tea industry by the researchers, economists and academicians in India. Different authors have analyzed financial performance in different perspectives. A review of these analyses is important in order to develop an approach that can be employed in the context of the study of tea industry. Therefore, to have an idea of what did the earlier studies do and the outcomes of such studies, the present chapter reviewed the various approaches to the study on financial analysis and performance.

Chandra H and Selvaraj A (2013)\textsuperscript{1} have made a study on financial health of the selected Indian steel companies”. The main objective of their study is to analyse the financial health of the 38 selected steel companies out of 118 companies quoted in BSE from 2000-01 to 2009-10. They used Ratio analysis; Z score based Multiple Discriminant Analysis. They also used descriptive statistics like Mean, Standard Deviation and Compound Annual Growth Rate, Linear Growth Rate and students “t” Test. They suggested to put efforts to increase ‘Z’ Score to avoid damage to its liquidity and solvency position.

Shishir Pandey (2012)\textsuperscript{2} in his empirical analysis on financial structure and profitability of IFCI Ltd, has analysed the financial structure which helped to identify the shortcoming and inadequacy of fund to raise profit. Data for the study
were collected from the annual reports of IFCL Ltd and analysed by using statistical tools namely correlation and regression analysis. To analyse the impact of profitability, the variables like Earnings per share, Shareholders Fund, Loan Fund, Working Capital and Return on assets were selected. It was suggested to reduce loan fund and found that large amount of working capital was blocked in loans so the company should try to recover it at the earliest to increase the profitability.

**Rakesh Kumar Manjhi and Kulkarni S.R (2012)** have carried out an empirical research on Working Capital Analysis of Gujarat Textiles manufacturing Industry. They studied the working capital structure, liquidity position and working capital turnover position of Gujarat Textiles Manufacturing Industry. The study was conducted among five commercial textile companies and data were obtained for the period of eleven years from 1999-2000 to 2009-2010. Analysis was carried out by using variables like current ratio, quick ratio, ratio of current assets to total assets, current assets turnover ratio and working capital turnover ratio. Apart from the ratio analysis they used statistical tools like Mean and one way ANOVA. The study concluded that sample companies had good current ratio which imply sound liquidity position of the sample companies.

**Osuji Casmir Chimaemerem and Odita Anthony (2012)** in their paper have examined the impact of capital structure on financial performance of Nigerian firms using a sample of thirty non-financial firms listed on the Nigerian Stock Exchange during the seven year period, 2004 – 2010. Panel data for the selected firms were generated and analyzed using Ordinary Least Squares (OLS) as a method of estimation. The result showed that a firm’s capital structure was surrogated by Debt Ratio and it had significantly negative impact on the firm’s financial measures (Return on Asset, ROQ, and Return on Equity, ROE). The findings of the study indicated consistency with prior empirical studies and provide evidence in support of Agency cost theory”.

**Venkataramana, N and Ramakrishnaiah, N (2012)**, in their paper have made an attempt to know the profitability and financial position of selected cement companies in India. For accomplishment of the objectives, the data was
collected from the annual reports from 2001-2010 for the selected ten cement companies in India. The collected data was analyzed and computed to fit for drawing inferences using various ratios like Current Ratio, Cash Ratio, Debtors Turnover Ratio, Net Working Capital Ratio, Return on Equity Ratio, Return on Capital Employed, Net Profit Margin Ratio, Earning Power Ratio and statistical tools including Correlation, Mean, Standard Deviation, Variance and Skewness. The results revealed that profitability of the selected companies have a favourable trend towards Return on Equity Ratio and Return on Capital Employed.

Fulwinder Pal Singh (2012) in his paper has tried to analyze the TFP growth trends in Indian manufacturing sector at both aggregated and disaggregated inter-state level using the Malquist productivity index for panel data set of 16 major industrial states over a period of 29 years spanning over 1979-80 to 2007-08. The study observed that manufacturing sector of India was growing at the rate of 9.1 percent per annum during the entire study period. Out of Sixteen Industrial States, there were five states namely Uttar Pradesh, Madhya Pradesh, Gujarat, Orissa and Rajasthan where double digit TFP growth had been noticed. The manufacturing sector of Uttar Pradesh was growing with highest TFP growth at the rate of 12.8 percent per annum followed by Madhya Pradesh with TFP growth of 11.8 percent per annum. The analysis of the sources of the TFP growth in Indian manufacturing sector revealed that both technical progress and technical change were equally contributing to TFP growth in the sector under evaluation. It had also been observed that at all India level, efficiency change was greater than technical progress.

Sarbapriya Ray (2012) in her research on “Performance of Indian automobile industry: An econometric appraisal” embarked on a new journey in 1991 with de-licensing of the sector and subsequent opening up for hundred percent Foreign Direct Investment through automatic route. In view of this, the study attempted to estimate the economic performance of Indian automobile industry in terms of capacity utilization at an aggregate level. It estimated econometrically the rate of capacity utilization in the industry at aggregate level and analysed its trend during the post liberalization period from 1991-1992 to
2005-2006. The study also tried to assess the impact of various factors influencing capacity utilization. Here, optimal output was defined as the minimum point on the firm’s short run average total cost curve and the rate of capacity utilization was merely ratio of its actual output to capacity output level. Econometric model was used to determine the optimal capacity output. The result showed that capacity utilization was improved after the path breaking economic reforms initiated in 1991 at the rate of around 5 percent per annum but capacity grows more rapidly than output growth. In view of identifying several factors that influenced capacity utilization, result showed that coefficient of export-intensity variable, import penetration ratio were negative which indicated that capacity utilization was relatively lower in firms belonging to industry characterized by high export-intensity and import penetration. A positive relationship was found between size and capacity utilization and similarly between market share and capacity utilization.

**Vidya Rajaram Iyer (2012)** from her comparative study of sources of output growth in manufacturing industries of India vis-à-vis select developed nations has observed that Productivity and the factors of production were the two sources of output growth in an economy. Productivity growth in a purely engineering terminology generally resulted from technological improvements. Indeed, it is important for a society to have a stable and positive long-term productivity growth rate, because the associated gains lead to improvements in living standards. It is primarily an advance in the state of knowledge through technological change that paves ways for productivity growth over long periods of time. The government of India has brought in several changes in the economic and industrial policies and with the abundant support offered in the policies, this is the time to break new grounds in the manufacturing sector. The main focus of the study had been directed towards the comparative analysis of industrialization in India vis-à-vis select developed nations namely, the USA, Canada, Australia, Japan, the UK and South Korea at three digits ISIC disaggregation for two decades post 1985 covering the data published by UNIDO.
Shurveer S. Bhanawat (2011)⁹ in his study on “Impact of Financial Crisis on The Financial Performance of The Indian Automobile Industry” observed that India is, a country with diverse culture and religion, strong in will and manpower, large in size and opportunities had become a highly wooed automobile market. Despite the impact of the financial and economic crisis, India’s automobile economy is booming. Due to global financial crisis various sectors of industries were affected. In this connection the author tried to judge the impact of financial crisis on Indian Automobile Industries with the help of statistical significant techniques. In the analyses of the t-Test and Analysis of Variance, it was found that the impact was not significant which proved that though the global economies were impacted by recession, the Indian Automobile Sector showed resilience and was not affected significantly by the recession. It also showed that the Indian automobile market, though impacted by export income, did not crumble under recession, as the volumes were significantly met by local demand, thereby proving that the Indian economy is a self sustaining economy, not significantly impacted by the financial crisis.

Amalendu Bhunia (2010)¹⁰ had undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance played a crucial role in the growth. This study covered two public sector drug & pharmaceutical enterprises listed on BSE. The study was undertaken for the period of twelve years from 1997-98 to 2008-09. In order to analyze financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios have been used. Statistical measures namely Linear Multiple Regression Analysis and Test of Hypothesis – t test were used to measure the relationship between the selected variables.

Tavakkoli M et al., (2010)¹¹ have carried out a study “New Method to Evaluate Financial Performance of Companies by Fuzzy Logic: Case Study on Drug Industry of Iran”. They used a method based on fuzzy logic introduced to evaluate financial status that will help investors assess the company’s financial performance. Financial ratios like Market Structure ratios, Profitability ratios, cash flow ratios and investment ratios were used for analysis. Finally, results obtained
from this methodology have been tested through statistical tests and this methodology was certified based on them. The results obtained from this method approximately were consistent with the expectations of financial experts in Iran stock market about Drug industry in Iran. They concluded that many global countries were in maturity stage but China and India were in growth stage. They also concluded that “go it alone “is the best approach.

**Adolphus Toby (2008)** had shown that there was a statistically significant relationship between a measure of liquidity and selected measures of profitability, efficiency and indebtedness in Nigerian quoted manufacturing companies. The impact of one percent increase in average liquidity measures produced a more significant increase in average profitability (21.9 percent), efficiency (16.1 per cent) and indebtedness (16.6 per cent).

**Hamasalakshmi R (2009)** in her research on ‘Financial Analysis of Selected Indian Software Companies’ has empirically investigated the growth and development, consistency and growth of financial variables, forecasted trends of selected variables, to identify the most influencing factors towards earnings, to study the working capital practices and to evaluate the financial health of software companies. Hypothesis was developed to test the relationship between the mean of total assets, net worth, net sales, EBIT, gross profit, net profit margin, profit after tax, total debts, return on investment, return on equity, EPS, and retained earnings.

**Sharma Manisha and Prashaant (2009)** have tried to make an attempt to analyze the export and financial performances of the Indian textile industry after the abolition of the Multi-Fiber Agreement, with the help of advanced statistical techniques such as Cluster Analysis and Regression. The variables taken for the statistical analysis were quality, training of employees, finances, and funds and technological up gradation.

**Chellasamy P and Sumathi N (2009)**, have tested the relationship and factors influencing the profitability of selected Textile Companies in Coimbatore District. In the course of analysis, various statistical measures like correlation, t-Test and Multiple Regression Analysis have been used to find out the relationship between the variables like Profitability, Short Term Liquidity, Long Term Solvency,
Turnover, Fixed Assets Management and Working Capital Management. A Sample of 8 companies was selected and data analysed. They concluded that working capital management was a highly influencing factor on the profitability of selected textile companies in Coimbatore district. Hence, it is concluded that the companies must concentrate on the influencing factor for the betterment of the company.

Jennifer Keeling Bond (2009)\textsuperscript{16} has empirically tested the hypothesis that cooperative board of directors and board size, specifically, can influence firm performance. Most existing studies of cooperative governance rely on qualitative data to draw inferences; however, this chapter uses several USDA data sets and a survey of co-op managers to determine whether above-average board size has a negative impact on co-op performance. This approach was comparable to those found in the corporate governance literature; however, it contributed to the cooperative literature by providing statistically-based findings on optimal board size. Specifically, this study found that additional board members do eventually reduce some measures of performance; however, board size must be quite large.

Manor Selvi and Vijayakumar (2007)\textsuperscript{17} in their study entitled “Structure of Profit rates in Indian Automobile Industries – A Comparison”, have made an attempt to examine the trends in rates of profit of selected Indian Automobile Industries over the period 1991-92 to 2003-04. Further, an attempt has also been made to capture the industry wise variation in the series of profit rates, which revealed that the dispersion of the series for each industry over the study period. Findings of the study showed that the declining trend of profitability was a proof of adverse effect of various controls on prices, output, expansion and investment etc., exerted by government on these industries over time.

Wang, W. and Chang, Ch. (2005)\textsuperscript{18} have studied, in global knowledge – based economy, the issue as to why some firms are more competitive and perform better than others is likely to be a crucial one. This question was in the centre of analysis of many business disciplines and the subject of never - ending debate. In particular, strategic management field has traditionally focused on business concept that affects firm competitiveness and firm performance.
Solebad and Peria (2005)\textsuperscript{19} have analysed the financing pattern of the Indian Companies and found that while debt to asset ratio has been relatively stable, nominal debt growth has slowed down in recent years. Throughout the period of study (1994-2003), bank financing as a share of total debt had increased, while borrowing from non-bank financial institutions fell sharply. In terms of differences across firms, the finding showed that debt levels increased with firm size. Smaller firms have especially less debt relative to larger firms. Furthermore, while the ratio of debt to assets was relatively stable for large firms, it was observed that the debt to asset had a significant decline for smaller firms.

Vasuki Rao and Arindam Mukherjee (2004)\textsuperscript{20} have presented information on the performance of top-25 companies in textile sector according to sales and profitability basis for the year 2003. It included information on sales, net-worth, paid-up capital, earning per share, break-up values, and others pertaining to the year 2003. Some of the companies included for the analysis were Dewan Salman Fiber Ltd., Nishat Mills Ltd., Ibrahim Fibers Ltd., Fateh Textile Mills Ltd., Sapphire Textile Mills Ltd., Gul Ahmed Textile Mills Ltd., Kohinoor Textile Mills Ltd., Crescent textile Mills Ltd., Fatima Enterprises Ltd., and others.

Edwards, W. (2004)\textsuperscript{21} assessed the value of the relationship between the firm and its environment. The main indicators used for the assessment were reputation, strategic alliance, customers, suppliers and connection to other agents. It was observed that there was a nexus or network of relationship that consist of intangible processes and activities useful for generating intangible resources. However, he attempted to divide relational capital into business capital and social capital. Furthermore, he subdivided social capital into social integration capital and social innovation capital.

Sudarsana Reddy (2003)\textsuperscript{22} has studied the Financial Performance of Paper industry in AP. The main objectives set for the study were to evaluate the financing methods and practices to analyze the investment pattern and utilization of fixed assets, to ascertain the working capital condition, to review the profitability performance and to suggest measures to improve the profitability. The data collected have been examined through ratios, trend, common size, comparative financial statement analysis and statistical tests have been applied in
appropriate context. The main findings of the study showed that A.P. paper industry needs the introduction of additional funds along with restructuring of finances and modernization of technology for better operating performance.

Poongodi (2003)\(^{23}\) in her study entitled “A Study on Financial Performance of Cement Industries” in South India with special reference to Tamil Nadu, Karnataka and Andhra Pradesh” has focused on ascertaining the profitability and measuring the earning capacity of cement industry. She has suggested that they have to develop their long-term and short-term solvency position and increase in their total sales by adopting modern marketing techniques.

Vijayakumar and Kadirvel (2003)\(^{24}\) have studied the determinants of profitability of Indian Public Sector Manufacturing Industries using Econometric analysis. It was evident from the results that age was the strongest determinant of profitability followed by the variables vertical integration, leverage, size, current ratio, inventory turnover ratio, operating expenses to sales ratio and growth rate. The selected variables had both positive and negative contribution to variation of profit rate. In a nutshell, it could be concluded that firms should consider all these possible determinants while considering their profitability.

Vijayakumar and Kadirvel (2003)\(^{25}\) have studied the profitability and size of firm in Indian Minerals and Metals industry. Generally, it is suggested that the larger the firm may be in a position to earn a higher rate of return on its investment than the smaller firm. Similarly, a counter argument is that size breeds inefficiency and hence profitability may decline with size of firms. Thus, based on this theoretical arguments that profitability should increase with the firm size and a negative relationship by some other researchers. The researchers decided necessary to study the relationship between size and profitability of the firms. For this purpose, Indian public sector minerals and metals industry has been selected. The study revealed that size was found to be significantly associated with the profitability during the study period. It was also evident from the analysis that size is positively associated with the profitability. Thus, larger firm may be in a position to earn higher rate of return on investment through diversification and moving into higher technology.
Lord Richard and McIntyre James (2003) have explored the relationship between capital structure and import competition for the textile and apparel industries from 1974–1987. The level of import penetration should have an important effect on business risk and hence on financial leverage. It also examined the response of leverage to the interrelationships that might exist between import competition and three other factors: firm profitability, strength of the dollar, and investment in capital equipment. The evidence suggested that leverage for the textile firms increases with rising imports but that the effect is less marked if the imports are the result of a strengthening dollar. The textile firms also seem to have inaugurated a capital investment campaign in reaction to the import competition. For apparel firms, the interrelationship between profitability and import penetration seems to have been the primary determinant of leverage.

Ordonez de Pablos, P. (2003) has defined Relational capital as the organizational association with internal and external stakeholders of the firm, including with customers, employees, suppliers, industry associations, stakeholders, and strategic alliance partners.

Narashimhan and Vijayalakshmi (2002) have carried out a study from 1989-2002 of ten major manufacturing industries and found that the business risk had increased from 1996-97.

The study found a decline in ROCE in industries, where there was heavy competition. The firms were requiring more funding and had to decide about either fixed capital or not. Since debt rate was lower than equity, it has affected the financial performance of the equity firms. The study ascertained that these industries expect higher growth in the future and recommended to minimise the debt capital initially.

Vijaya Kumar. A (2002) has examined the “determinants of profitability in sugar industry of Tamil Nadu” for the units having a crushing capacity of 2000 MT(perday) (or) more. There were 13 units and all the units have been considered for the study over the period (1982 -1994). Multiple regression models were used for analysis taking ratio of growth rate of sales as the basis and vertical integration, leverage, and Operating expenses to scales ratio have been used as the other variables for the model.
Nanda Kishore Sharma (2002)\textsuperscript{30} has analyzed the sources of working capital of cement industry in Rajasthan. The main sources of working capital were found to be trade credit, bank credit, current provisions, short term borrowings and long term sources as well. The findings supported the basic view that the permanent part of working capital should be financed by long term sources while the short term finance should be used to meet the temporary working capital.

Rajamanicam \textit{et al.}, (2002)\textsuperscript{31} have conducted a study on textiles which revealed that recessionary trend, during the last years, had eroded already, the low profitability of a large number of mills, many mills face liquidity crisis. It further stated that the low profitability in the last few years had severely affected the working of (almost two third) the spinning mills in the country. Most of them faced working capital shortage and some have suffered from accumulated losses.

Sanjiban Bandyopandhyaya (2002)\textsuperscript{32} has dealt with the Economic Reforms and its Effect on Public Sector in India. Despite inadequate private participation many, PSUs showed progress in their performance during the post-reforms period. An important observation in this regard was that all the profit making units of the pre-reforms periods were monopolies. However, public sector reforms have brought a sea change in the performance of most of the units.

Aggarwal and Singla (2001)\textsuperscript{33} in their study have developed a single index of financial performance through the technique of Multiple Discriminate Analysis (MDA). They attempted to identity 11 ratios used as inputs which are relevant in differentiating profit making units from loss making units in Indian paper industry. The study indicated that model has correctly classified 82.14 percent of units selected as profit making and the remaining as loss marking. The study also showed that inventory turnover ratio, interest coverage ratio, net profit to total assets and earning per share were the most important indicators of financial performance. The study also suggested that the results of MDA could be used as predictor of future profitability / sickness.

According to Bontis, N. (2001)\textsuperscript{34}, social capital provided the organization with values such as solidarity and cooperation, especially when interactions fix patterns of obligations and expectations based on rules of reciprocity and equality.
Social capital benefitted the corporative area of information, influence, control and power. Possession of key information and the control of flows of information create business opportunities.

**RK Sahu (2000)** has ascertained from his study that the composite profitability of a firm could be measured by the method of multivariate analysis. Gross earnings ratio, gross profit ratio, operating profit ratio and net profit ratio were used to study the profitability in relation to sales. Gross surplus ratio and return on total tangible assets were used to study the profitability in relation to total assets. Return on capital employed (EBIT To CE) and cash flow plough back ratio measured the effectiveness of capital employed. Return on shareholders' equity studied the profitability in relation to shareholders' funds. Times interest earned ratio assessed the profitability of a firm from the point of view of long term creditors. The high correlation existed between the profitability ratio under each main head (margin on sales, return on total assets and return on capital employed) was partly due to the common elements found in both the ratios. Another reason for the high correlation was that both ratios were influenced by the common economy-wide and industry-wide factors.

**Mohammed Rafiqul Islam (2000)** studied the profitability of Fertilizer Industry in Bangladesh from 1985 – 1986 to 1994 – 1995. The sample included five fertilizer interstices in Bangladesh chemical industries corporation (BCIC). The findings of the study indicated that none of the selected units was consistent and all the units were plagued with declining profits. The study concluded with suggestions for improvement of the profitability of fertilizer industry in Bangladesh.

**Agarwal (1999)** has studied the profitability and growth in Indian Automobile manufacturing industry. The objective of this study was to examine whether firms have been making super normal profits since 1975 when price controls were removed. It also evaluated the impact of policy changes since 1981-82 on profitability and growth of firms in the industry using Tobin’s Square as a measure of profitability. The study found no evidence to show that firms have made super normal profits. Profitability was found to have been explained mainly
by the age of the firms, vertical integration, diversification and industry policy
dummy variable. Important determinants of the growth of firms were found to be
diversification, industry policy dummy variables, gross retained profits and
expansion of capacity. Results also revealed differences in performance between
car and non-car sectors as well as within the sectors of the industry.

Govinda Rao and Mohana Rao (1999)\textsuperscript{38} in ‘Impact of working capital on
profitability in cement industry – A correlation analysis’, analyzed the impact of
profitability on working capital in cement industrial units in India. Ten variables
on working capital ratios had a close interaction with profitability measures viz.,
current ratio, debt equity ratio, cash position ratio, working capital turnover ratio,
inventory turnover ratio, debtors turnover ratio, cash turnover ratio, current assets
turnover ratio and average collection period. The inter-relationship was studied
with the help of Karl-Pearson’s co-efficient of correlation technique, by arranging
the correlation of one variable with each other variable in the form of matrices
which were a triangular and symmetrical about the principal diagonal. On overall
basis out of 10 variables with PBDIT, 3 variables showed a significant co-efficient
and seven exhibited insignificant relationships. Out of the 10 variables, 5 variables
showed negative association while the others showed positive relationships.

Juliet Souza and William Megginson (1999)\textsuperscript{39} have compared the pre
and post privatization financial and operating performance of 85 companies from
28 industrialized countries that were privatized through public share offerings for
the period from 1990 to 1996. They documented significant increase in
profitability, output, operating efficiency and dividend payments and found
significant decrease in the leverage ratios for full sample firms after privatization
and for most sub-samples examined. Capital expenditures increased significantly in
absolute terms, but not relative to sales. There was a decline in the employment,
but it was insignificant. In comparison, the results of two previous studies were
similar in nature. The findings strongly suggested that privatization did yield
significant performance improvement.
Suresh Babu and Jain (1999) have undertaken an empirical study of the Indian private corporate sector in short-term and long-term debt financing by taking the period from 1979-80 to 1993-94 to address the issue of debt financing practices. Cement companies constituted 6 per cent of their sample. It revealed that there was a shift towards the preference of a long term debt in lieu of a short term debt and the debt ascendant capital structure. With declining and alarmingly low debt service capacity, the majority of the corporate firms were exposed to a very high degree of risk and were subjected to financial distress. It suggested that the corporate finance manager of future to review the debt policy with a view to keeping the magnitude of debt within safe and serviceable limits.

Raghunathan and Prabina Das (1999) have analyzed the performance of Indian Manufacturing sector in the last 8 years since liberalization on the parameters of profitability, liquidity, leverage and solvency. While the solvency and profitability ratios were encouraging till 1996 they have been gradually diminishing after that. This problem got more pronounced when the EVA was calculated which showed that the Indian Manufacturing sector had destroyed wealth, while the MNCs have generated wealth for their shareholders. The article pointed out that poor corporate performance had led to an economic slowdown and not the other way round. The Corporate had raised funds during the balcony days of equity markets and ended up in investing these funds at a cost below their cost of capital. Thus, the outcome had been a prolonged economic slowdown.

Roger M. Shelor et al., (1998) in their study examined changes in “Operating Performance among Real Estate Investment Trusts” following an Initial Public Offering (IPO). The purpose was to determine whether there is an enhancement in the value of the underlying asset that is related to the IPO. They individually analyzed equity, mortgage and diversified REITs. They also compared the operating performance of recent IPOs to those of earlier years to address the impact of the 1993 Revenue Reconciliation Act on institutional investors’ demand for REIT stock. Unlike previous analyses of industrial firms, REITs were found to have significant increases in return on Assets and selected measures of financial performance. The post-IPO cumulative stock price decline and recovery was illustrated.
Davis Higjins and Steven Toms (1997)\textsuperscript{43} have reviewed that the Recent business history had been much concerned with the relationship between organization tenure and competitive advantage using an archetypal case of the decline of the export – led British cotton industry, with the contention that the vertically integrated, professionally managed firm had been an important pre-condition for the creation of international competitive advantage during the twentieth century was subjected to scrutiny. This was achieved by a long-run comparison of accounting based financial performance indicators. Evidence from this study suggested that vertical specialization was a superior form of business organization.

Nagandra Rao (1997)\textsuperscript{44} has presented a paper at the Asian Pacific Organization (APO) World conference on Green Productivity, Development Academy of Philippines, Manila. He addressed the issue of polluted environment by the very nature of the raw materials and production process in cement industry. This article listed the steps taken in the direction of addressing this issue and the resultant positive impact on productivity through financial performance.

Anjan Kumar Ghatak and Rathindra (1996)\textsuperscript{45} have analysed the inventory financing in Associated Cement Companies Ltd (ACC) for the period 1986-87 to 1990-91 and found the increased proportion of long term finance, which resulted in reduced profitability as the long term sources of financing attracted high cost and concluded that the inventory financing policy was less than optimum as it neither minimized the short term financial risk nor earned profits and suggested a reoriented approach in financing inventory.

Pai et al., (1995)\textsuperscript{46} studied the relationship between diversified firms and their financial performance and have found that seven large firms having different products-both related and otherwise in their portfolio and operating in diverse industries. Basically, a set of performance measures/ratios were employed to determine the level of financial performance. Subsequently, Kruskal-Wallis test was introduced to rank firms to establish their relative superiority of performance. The results revealed that the diversified firms that were studied had a healthy financial performance. However, variation in performance from one firm to another had been observed and statistically established.
Noel Capon et al., (1994)\textsuperscript{47} has published a Meta–analysis of the impact of strategic planning on financial performance, a major study of corporate planning in fortune five hundred manufacturing firms. This article briefly reviewed the study in the light of the result of the Meta–analysis. Additional analysis examined the performance and firms’ survival over a longer time period than in the original book. The overall conclusion was that a small but positive relationship between strategic planning and performance existed and persisted.

Jagan Mohan Rao (1993)\textsuperscript{48} in ‘Financial appraisal of Indian Automotive Tyre Industry’ has studied the financial appraisal of Indian automotive tyre industry. The study was intended to probe into the financial condition-financial strength and weakness-of the Indian tyre industry. To this end a modest attempt was being made to measure and evaluate the financial performance through inter-company and inter-sectoral analysis over a given period of time (1981-1988). The main findings revealed that fixed assets utilization in many of the tyre undertakings was not as productive as expected and inventory was managed fairly well. The tyre industry’s overall profit performance was subjected to inconsistency and ineffective.

Kallu Rao (1993)\textsuperscript{49} has carried out a study on inter-company financial analysis of tea industry-retrospect and prospect. An attempt was made in this study to analyze the important variables of tea industry and projected future trends regarding sales and profit for the next 10 year periods, with a view to help the policy makers to take appropriate decisions. Various financial ratios have been calculated for analyzing the financial health of the industry. The forecast of sales and profits of tea manufacturing companies showed that the Indian tea industry had bright prospects. The recent changes in the Indian economic policies will boost up the foreign exchange earnings and benefit those companies, which are exporting to hard currency areas.

Cleveland and Frederick (1993)\textsuperscript{50} in their study on ‘Profitability, Uncertainty and Firm Size’, have examined the connection between variations in profit and loss rates among firms in small-firm and large-firm size classes as reflections of uncertainty. They found that, within industries, such variations were particularly great for firms in small-firm size classes, leading to operating policies
for small firms best characterized as entrepreneurial. Large firms, in contrast, faced with less uncertainty in earning profit, appear to adopt policies that manifest an emphasis on strategic planning.

According to Barney, J. (1991)\textsuperscript{51} a firm needs to quantify its relational capital contribution to the value of the organization and consider how the assets compared to those of its competitors; reflecting the recognition that relational capital was the most impediment to the long term rates of return associated with unique endowments, positions and strategies of individual businesses. Therefore, relational capital as a component of intellectual capital was accepted widely as a major corporate strategy.

Krishnaveni (1991)\textsuperscript{52} in her study has evaluated the impact of policy changes since 1982-92 on profitability and growth of firms in the tyre industry using Tobin’s q as a measure of profitability. The study found no evidence to show that firms have made supernormal profits. Profitability was found to have been explained mainly by age of the firms, vertical integration, diversification and industry policy dummy variables. Important determinants of the growth of firms were found as diversification, industry policy dummy variable, gross retained profits and expansion of capacities. Results also revealed differences in performance between car and non-car sectors as well as within the sectors of the industry.

According to Kohil, A.K. and Jaworski, B.J. (1990)\textsuperscript{53}, one of the two external elements of relational capital was the relationship with customers that often were referred to the market orientation concept and direct interaction with customers, for a variety of different purposes, including feedback and issue reporting. According to the authors, market orientation was defined as the organizing wide generation of market intelligence pertaining to the current and future needs of customers. The dissemination of this intelligence must be done vertically and horizontally within the organization so as to create a competency in responsiveness to market changes.
Underdown, G.B (1986)\textsuperscript{54} has observed from his study that the profitability indicated the ability of a firm to earn a return. The return is normally a margin of sales, proportion of capital invested and proportion of assets used. He highlighted that profitability measures the extent to which a business generates net income or profit from the use of its resources. Profitability as a measure of performance is widely accepted and used by company owners, management, investors and others since they are interested in knowing the firms returns, which is normally a margin of sales. In order to summarize the large quantities of financial data and make qualitative judgments about the firm’s performance, ratio analysis was very useful. They were particularly useful for the purpose of comparing performance from year to year and the performance of different companies.

LC Gupta (1979)\textsuperscript{55} has attempted a refinement of Beaver’s method with the objective of building a forewarning system of corporate sickness. A simple non-parametric test of measuring the relative differentiating power of the various financial ratios was used. The study covered a cross section of companies falling under various industries. Fifty six (56) ratios were tested for the period of 1962 to 1974, i.e. for twelve (12) years. As per this study, it was found that the following five (5) ratios have high degree of predictive power. These were: Earnings before depreciation, interest and taxes (EBDIT) to Sales, Operating cash flow (OCF) to Sales, EBDIT/Total assets including accumulated depreciation, OCF/Total assets including accumulated depreciation, EBDIT/(Interest + 0.25 Debt). Among the balance sheet ratios, only two ratios were found to have some power of predicting possible sickness. They were: Net worth/Debt, including both short term and long term debt and All outside liabilities/Tangible assets. An important outcome of the research was that weak equity base could lead to sickness.

Subramaniam and Popola (1971)\textsuperscript{56} had made a study on “Profitability and growth of firms”. The study of Indian chemical industries expressed that there were a number of determinants of profitability in India. He studied the relationship between profitability and growth of firms in Indian chemical industry during the period 1962 to 1969 with data of 27 companies quoted in stock exchange. They found that most of the firms had to grow in an expanding market with differing intensities and that those who have ability aided by profit continued to grow faster.
REFERENCES


