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Determination that a true manager or leader must make every day...



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SANKALPA : Journal of Management & Research

aims at bringing out the intricacies of Management perspectives, concepts, and applications. The focus is on Indian Management and its interplay with Global Management knowledge, best-practices and research.

This issue is sponsored by : Dr. Rekha Srivastava and Dr. Satendra Kumar, Professor & Head, Ph.D Research Center, CKSVIM



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THE GREAT PHILANTHROPIST



In fond memory of (Late)

Hon. Dr. DIPCHANDBHAI GARDI

2nd Memorial on 6th January 2016

(25.4.1915 – 6.01.2014)

Late Chairman, SMJV Trust, Mumbai

"Say not in grief: 'He is no more', but live in thankfulness that he was." Hebrew Proverb

Yes!! Such was his presence... **Dr. Dipchandbhai Gardi**, Former Chairman of SMJV Trust, Mumbai, a **Philanthropist, Saviour, a Billionaire....a great kind-hearted human being...**who is remembered for his noble deeds done towards mankind, the needy and the destitute.

Sir Dipchandbhai Gardi, left for his heavenly abode on **6th January 2014** at Mumbai. He was considered as the **"Danveer Bhamasha"** who used to donate about 1 crore of rupees every day. Dipchandbhai preferred to remain a silent donor throughout his life as the crores that he donated have seen a number of educational institutes and hospitals come up and flourish since last many decades. Born in Padadhari village near **Rajkot** in 1915 in a poor family, Dipchandbhai donated crores of rupees for education, health and welfare of poorest of the poor.

His sole motto was to "live and let live". He used to strongly believe in **"Karmayoga"**. Infact, India needs people like him. By sheer hard work, dedication, highest level of gentlemanship and devotion to almighty, he became an icon for philanthropic activities in India....a legendary figure known for his social contribution.

WE MISS YOU SIR !

MEMOIRS OF SHRI DIPCHANDBHAI GARDI



From the Heart of Editor-in-Chief.....

"Ek Bharat, Shrestha Bharat"...

India's Leadership Potential in the World



India, earlier known as Bharat by the name of **King Bharata**, dates back to **5,000 Years** with a rich history of culture, treasure, international trade and compassionate people. India's significant population of 86% Hindus believe in Hinduism, not a religion but a *way of life*. Yet **Indian PM Narendra Modi** outreached **Pakistan PM Navaz Shariff** at Lahore in a surprise visit to wish **Happy Birth Day!** What a statesmanship shown by the Indian PM after 10 years, and the first such visit to wish Birth Day to our old brother and now neighbour since 1947!

If Independence led **Bharat**, one country to separate into two and later three and four, I see a distant but distinct possibility to merge India and Pakistan into **One Bharat, or Indostan!** **Narendrabhai** as we fondly call our PM in Gujarat, must have foreseen this possibility, in addition to facilitate creation of stronger Asia-Pacific Block, in alignment of Middle-East Block, Africa, Europe and The USA-Canada. A stronger Asia can benefit better from the new **Trans-Atlantic Treaty** and other such treaties existing.

The benefits of friendly, better relations with our brother country are immense; it will cut the defence budget of both countries by 25%. Simply translated, India's defence budget is INR 2.47 trillion (\$40.07 billion), and Pakistan's Rs 780bn for Y 2015-16, the **savings could be whopping INR 617bn for India and Rs 195bn for Pakistan** in just one year alone! Enough for allocating Rs. 1 million (10 Lacs) to **6,17,000 schools in India and 195,000 schools in Pakistan**, or opening as many new schools with a budget of Rs 10 Lacs p.a. in each of the villages.

Each such new or resourceful school can educate at least 100 students; about **60 million new students in India and 20 million in Pakistan**, eradicating misery and poverty by 50% of current level of about 10% population in both countries. With **freeing the country of corruption**, almost equal amount of money can be devoted to **school education**, thus **completely eradicating poverty in both countries by Y 2020. This is Inclusive Growth.**

India and Pakistan, together, can be **World-Leaders**; or separated as world-followers.

Our ancient **Sanskriti** – knowledge, culture, art, science, technology, politics and people-oriented policies of **Bharat** – has great things to offer, making it possible to blend with the rapid-rafting modern technology time, demanding skills, innovation, entrepreneurship and public policy for public good.

I shall be ungrateful if we don't acknowledge each of the research paper's authors printed in this and earlier five years' issues of SANKALPA Journal, as well as members on our Editorial Board / Committee, International Board of Scholar-Reviewers and our Support Team.

Best for 2016...

Rajesh Khajuria, PhD, CMC, FIMC

Director, SMJV's CKSVIM Business School
Convener, 5th International Ethics Conference at GTU, Feb 5-6, 2016

Chairman, Global MBA, Gujarat Technological University

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श्रद्धावाँल्लभते ज्ञानं तत्परः संयतेन्द्रियः । ज्ञानं लब्धा परां शान्तिमचिरेणाधिगच्छति ॥

"One who has faith and who with controlled senses is devoted to
attaining this wisdom is successful in his/her endeavour.
With wisdom and knowledge, he/she quickly attains the supreme peace."
- Bhagvad Gita

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APPEAL TO THE AUTHORS AND CONTRIBUTORS

The present issue (Volume 6, Issue 1) is the January-June 2016 Issue, which contains research papers / articles in various areas of Management and Research. The bi-annual Journal 'SANKALPA' portrays our strong conviction to disseminate the thinking of academicians and practitioners in the field of Business Management discipline, which they communicate through their 'Reporting' in the form of research papers, articles, study reports, case studies, original conceptualizations with logical vigor and vision.

The members of the Editorial Board appeal to all the academicians and practitioners to communicate their 'Reporting' to the Editor-in-Chief for publication in our subsequent issues, through the e-mail ID : publications@cksvim.edu.in

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From the Desk of Research Head, CKSVIM

The Ph D Research Centre, CKSVIM, continues to extend help to the faculty members of CKSVIM in particular, and faculty members of other institutions of Gujarat Technological University (GTU), Ahmedabad, in general, who are pursuing Ph.D Research or intend to pursue Ph.D Research.

Starting from July 2011, the Centre today has 21 Research Scholars, who are in various stages of their PhD work.

The Mission and Objectives of the PhD Research Centre are:

Mission

- To promote 'Research Activities' at SMJV's CKSVIM, Gujarat Technological University and in other Institutions in the State of Gujarat and India.
- To promote Research Environment in CKSVIM capable of sustaining all kinds of research activities needed for the generation and dissemination of newer knowledge on a long-term sustainable basis.

Objectives

The specific objectives of the Research Centre therefore are :

- To encourage teachers and independent researchers to get into the habit of reading research journals to acquire current knowledge of the outcomes of the 'research studies' conducted by the Researchers and reported in these journals.
- To make them aware of the whole 'Process of Researches' of different kinds which can be undertaken by any Researcher and to motivate him/her to conduct 'Researches-studies' independently or as a member of the Research Team.
- To train the teachers and researchers in drawing inferences from the Research Studies reported in Research Journals / Magazines, Websites and to carry out the 'Concept – mapping' of the research findings to identify the 'gaps' in the Current Studies to enable them to design and conduct research studies with a view to bridging the 'research-gap' thereby adding new knowledge in the field of Research.
- To train the teachers and researchers in the design of Samples, Questionnaire to be used for collecting field data and to integrate them with the tools of Statistical analysis for drawing inferences and for fulfilling the objectives of Research Studies.
- To inspire the teachers and researchers for writing Research Papers and to get the same published in the 'referred- journals' of repute.
- To enable our teachers and researchers to undertake and complete their Ph.D Research and to earn their Doctorate in Management.
- To support and promote the publication of Research Journal of the Institute SANKALPA (ISSN 2231 -1904).
- To seek research funding from Government and Non-Government Organizations (NGOs) like GTU, UGC, AICTE, Ministry of Education, Government of India, Government of Gujarat; multi-lateral agencies like United Nations and others.
- To collaborate with and to seek co-operation from other research and educational institutions of India and abroad with a view to promoting Research activities among 'Teacher-researchers' as well as independent researchers.

The Centre conducts various programmes to pursue its objectives and to fulfill its Mission and to realize its Vision.

Jan, 2016

Dr. Satendra Kumar
Professor and Head
Ph D Research Centre, CKSVIM



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(Thought Leader Section)

Knowledge Management And Organizational Culture

Prof. Dr. Samo Bobek : University Maribor, School of Economics and Business, Maribor, EU Slovenia. Email : samo.bobek@um.si

Introduction...Knowledge management as a strategic resource

Knowledge management is explicit and systematic management of vital knowledge and is associated with creating, gathering, organizing, diffusion, use and exploitation of the knowledge. It is not only a necessity, but also source of competitive advantage and thus an important strategic resource for business organizations. Popularity of knowledge management has been increasing fast and it has become a central topic of management philosophy and a management tool. Most definitions of knowledge management include a combination of a management philosophy related to organizational knowledge and a technology based knowledge gathering and sharing information systems. Overall accepted definition defines knowledge management as: 'Creating, acquiring, storing, sharing, transferring and utilizing both explicit and implicit forms of knowledge at individual, group, organizational and community level through harnessing of people, process and technology.'

The better the processes of knowledge discovery, knowledge capture and knowledge storage the higher the chance that the knowledge needed will be available.

Organization culture and knowledge management

Various factors have influence on knowledge management in companies (e.g. employees, organizational values, infrastructure, culture, technology, environment and others). Organizational culture with its values and norms is of essential meaning for ensuring the long-term success of companies. Organizational culture is also regarded as an effective factor on knowledge management success in many researches. Culture of confidence and trust is required to encourage the application and development of knowledge within an organization. It plays an effective role in knowledge management effectiveness as the identity and foundation of organization and can have direct effect on employees' empowerment and knowledge sharing behaviour.

Recent research stresses the importance of a fit between employees and the organization's knowledge culture. Culture plays an effective role in knowledge management effectiveness as the identity and foundation of the organization and is principal determinant of successful knowledge management initiative. Knowledge sharing culture must enable an incentive system to support the participation towards knowledge sharing (for example 'knowledge sharer' of the month).

It is often pointed out that stronger culture influences stronger knowledge management. According to research findings the cultural characteristics of companies should be taken into account when implementing knowledge management. In today's knowledge-intensive organizations, knowledge management is information technology supported to lead employees to the information they need. Because of this some authors believe that IT is the main driver for knowledge management, though others disagree and believe that knowledge management is mostly about people and culture and not technology. Various authors have dealt with knowledge management, aspects, and factors.

To conclude...

It should be understood that knowledge management has three dimensions: information technology, organizational culture and people. Recent research suggests that combination of process of knowledge management, as well as organizational skills and intellectual capital as a strategic organizational asset, enables the increases of organizational effectiveness. Knowledge sharing process is a social interactive culture, involving the change of employee knowledge skills and experience through every department in organizations. It comprises set of shared understandings related to providing employees access to relevant information. Such process of sharing organizational knowledge facilitates exchange of working experiences, technical expertise and individual insights between and among individuals.

(Thought Leader Section)

Clarion Call To The Youth To Bring About Communal Harmony

Dr. SK Nanda, IAS : Chairman and Managing Director, GSFC Ltd., Vadodara.

(This article is the excerpts of the speech delivered by him during the Pre-Summit of the World Parliament of Religions, at Vadodara, on 9th August 2015, amidst galaxy of religious luminaries, from national and international arena.)

Prologue

The Industrial revolution and its resultant labour exploitation gave rise to the famous call by Karl Marx and Friedrich Engels, “Workers of the World, Unite!. You have nothing to lose, but your Chains!” Today, with competing and conflicting religious hegemony, with scant concern for common good, there is a need for a different approach, to promote peace and inter-faith harmony. While some of our earlier efforts have been met with partial success, peace and harmony are under constant threat and danger, especially from those religious segments, wanting to prove themselves superior to others. Therefore, there is a need to change our approach. Who will bring about this change?. The efforts for change have to come, bottom -upward from the youth to grown ups, from students to the teachers, from present generation to past generations. For long, we told the youth, 'what' they should do... 'how' they should do it... and in so telling them, we planted our historic biases, apprehensions, and mind-sets, some of which are even detriment to the society. By 2020, India is set to become the world's youngest country with 64 per cent of its population in the working age group of 15 to 34 years of age. Economically, we will have made great strides, but the lurking uncertainty is due to ethnic divergence, religious intolerance, assertion of supremacy by one faith upon other, with the ugly face of terrorism hiding its face in the veil of religious sanctions. Who else is better placed to counter this growing extremism and bring about inter-religious harmony, than the **Indian youth, known for their social quotient**, learnt through trans-generational transfers of culture, civilisation and traditions. Time is ripe for the youth of India, to respond to the clarion call of Swami Vivekananda, “**Arise, Awake, and stop not till the goal is reached**”.

The pre-summit meet of Parliament of Religions, has not only invited religious leaders from different sects and faiths, but also students from technology and science, arts and commerce, Management and Law, to witness this mammoth event and share their views. Our hopes have been rekindled. Our calculations have been proved right. Not only do the students represent this summit in large numbers, but seem ready and anxious to take a

lead to bringing about communal harmony.

At the outset, I like to admit, on behalf of the present older generation, that we had allowed some elements of religion to over dominate our private and public life and are paying the price for it. We had misjudged the influence of some hardliners within our religion who dictate terms to the silent majority and we are now faced with challenges of intolerance and terrorism. We had underestimated the competitive religious practices, and are living under the constant threat of disruption and destruction by forces wanting to demonstrate their supremacy.

It is in this background, I like to narrate a story.... A young boy and his mother are on the outskirts of a village where they see a great saint with his eyes closed. The boy asks his mother who the saint is and she answers "He is the great Lord Buddha". He only speaks the truth, truth and truth ... believes in peace, peace and peace. The boy wants to prove Buddha wrong. He takes a butterfly in his palm and asks Buddha whether it is dead or alive, assuming he would crush it if Buddha says it is alive. Lord Buddha said, '...the answer to the problem which is rattling you is in your mind is in your hand itself'. In the same analogy, the challenges that the Society is now faced with, due to religious extremism, will find solutions through the hands of the Youth.

The youth of this country are rich in ideas, they are the source of ideas. Like we say in physics, matter is never destroyed, it only changes its form. Similarly, an idea is never destroyed, it is a virus. Once an idea penetrates man, it can give way to a lot of people under the fulcrum of the idea. The higher ideas and goals are what we should aspire for. We have to revere people who are donating blood, doing environmental up gradation, participated in disaster rescue operations, helping displaced people. We should respect them, recognise them and create several action leaders at grass root levels. Ideals which one calls amity, unity, harmony, selflessness can only be achieved by upholding and rewarding those people who are involved in such work.

In the Indian social setup, especially in the family, there is a system of adjustment, accommodation. Nowadays, the main problem is that there is only thesis and antithesis but no synthesis

is coming about. If we want to take forward the ideas of Swami Vivekananda, we have to come out with a new array of symbols, icons, ideas, physical events and manifestations where we do uphold and give importance to things which are consequentially very important for people in the coming days.

When a child is born, it comes with breath but without a name. When it dies, it loses its breathing but carries some name. The distance between the two events is the chemistry of human life. This chemistry teaches us how to process, how to react, how to respond. It has to be moulded to achieve those goals which all of us profess to believe and which all religions and faiths also try to disseminate.

No religion teaches anything wrong. It is the practitioners who are dominating certain religious groups and projecting a different picture. If common consensus exists in society, no outsider can possibly disturb the peace which the people have chosen to adopt.

In our homes, we always open the windows to bring in fresh air but when it comes to our minds, we block the windows and are not as open to new thoughts and ideas. The Youth are different; they are open to new ideas. Time is ripe to hand-over the reins of the future peace to the students, who are capable of taking ownership and can be trusted upon to implement it on ground, as well.

We have to not only accept these ideas but institutionalize them into a functional structural model and endeavour to manifest them in real public life to be followed and to be preached. Only then can these outweigh the other forces which threaten to disrupt our peace and harmony.

Youth have to be unstoppable. The historic over-bearance of the yester generations, have underestimated the potential of the youth. Today, I call upon youth, to realise your full potential and move ahead. Like in the story of two brothers, where the elder one inadvertently falls inside a well; the younger one throws the bucket with a rope, hoping to pull out the elder. Not a minute was wasted in thinking about the limiting issues, but finally the younger brother pulled out the elder from the well. In the same manner, You have the potential to achieve great things. Your potent capabilities are far greater than your latent capabilities.

Thankfully, our Indian society has a linear kind of set up. Individual – Family – Caste – Community and Society, different from western countries, which are highly individual centric. Youth today should claim their rightful place, beyond their studies and job. As students, moving to our schools and colleges, we were also guardian of the local train, moving between Bilaspur and Kharagpur. The travelling public were reassured by our very presence in the train and self-defined role, to protect the train.

Similarly, the youth should grab a new role, in bringing about greater understanding among religious groups.

Youth should be the bonding force, not only between religions, but also within their own religions. So many wrongs need to be righted, especially when seen from the perspective of women and children some of whom are marginalised by caste and colour. Youth should bridge the gap between the older generations and the future generations. We are not to imitate the practices in some of the western countries like Old Age homes. Ours is unique, with strong family bondage and accommodating spirit. Let us nurture our traditional family values.

Youth have to connect with the problems of the area they hail from, like health, traffic, education. Youth should engage with the people and their problems; move beyond your comfort level. Your youthful contribution during the age of 20-35 years, will be best remembered. Mankind is born free, but some are in chains; artificial chains by circumstances, lack of opportunities, for the time being. Your timely intervention can unlock these chains, and help the disadvantaged to take off in his/her life.

Youth should be questioning, probing, feeling, sharing and giving.. The journey to communal harmony and inter-faith through mutual respect, appreciation and accommodation, will set the pace for future change in the society. You should achieve the highest standards; as individuals and as a group. You are not to be guided by any politics. Only your heart and the merit counts.

Our best wishes in all your endeavour. You are destined to succeed. The whole world will pitch-in to make it happen.

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(Thought Leader Section)

CSR Enabling Employees' Retention- The 2-20-200 concept

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Prologue

The 2-20-200 concept... Looking upon CSR through 2% profit, 20% employee volunteering and 200% leadership commitment.

Looking beyond the mandated financial allocation, we need to acknowledge that corporate are endowed with visionary leadership, across board and managerial levels. Conceptualizing CSR at macro level and delivering it at grass roots level by joining hands across industries, across geographic boundaries, across private and public enterprises, to address the concerns of all the stake-holders, will improve the quality and impact of CSR activities. The built-in leadership in the corporate, both serving and retired could serve as the torch bearers of CSR activities, connecting the employees with the society. Ethical leadership will connect corporate governance and corporate sustainability from workers to management to Board room. It has to reflect in vision mission action modules. We can draw from the experiences of retired government officials, service officers, judiciary, academia and their likes, willing to work voluntarily, thus reducing the CSR delivery cost and increasing the involvement of intelligentsia with the masses. After the initial focus, on addressing the basic necessities, like, food, health, education, infrastructure etc the higher level of focus should be in bringing greater awareness, value building, skill development and self-sustenance at individual and community level. Partnering NGOs with integrated developmental approach towards most needy segment, will deliver greater value to the society than those working in isolation. Local, regional, national and global resources should be pooled in, both in money terms, as well as in leadership terms, seeking volunteers from field to Board level. These intangibles will hasten-up the social changes towards inclusive growth.

Going beyond the mandate...

The initial hustling against mandating CSR through 2% profit, is history. No one is asking the permission of Corporate whether it should be mandated or otherwise. Now, the question is, what more Companies can do for the society. There is a case for roping in Small and Medium enterprises, within the ambit of CSR. There is a case for mandating Companies to commit to CSR, even if they have not made any profit. Why be in business, if you are

poor enough to serve the society. Employee volunteering for CSR activities, is the next step. Not only certain on-duty hours of compulsory CSR to be mandated for each and every employee, but the employees Social Quotient should be evaluated for their promotion and growth, by their readiness to commit their personal time, beyond their on-duty hours. To stretch it further, the employees should be encouraged to join hands with their spouses and relatives, for serving the social cause. This is what we mean by **20% Employee volunteering**. Now comes the Leadership in the Corporate. Leadership is an evolving process. Corporate leadership, which is presently driven by profit motive, must evolve towards fulfilling the social responsibility. That is the ultimate purpose of corporate leadership. There cannot be divergent interest between corporate and the society. Corporate leaders are well equipped to perform their social tasks, through their skill-set, ability to mobilize resources. All we have to do is to remind them of their social responsibility. Ethical leadership is not the privilege of management or few in board room. It has to reflect in vision mission action modules. The employees relations and benefits and business products of company have to follow the ethics of doing good. So this Leadership is not a tool or method of governance but a part of approach of company where transparency, discipline, commitment, digital connect and after sales care or services have to reflect in all eyes of workers and it has to become an end in itself than only a philosophical construct of reference value. Like leaders, organizations are also evolving through a life-cycle process. As the corporate mature in their attitude, they will soon move from reluctance stage to compliance stage and eventually embedded stage of social responsibility. In addition, corporate leaders should forge alliances with other leaders, in mustering the resources of individuals and institutions. There are enough resources, waiting to be available, if alone someone can ensure fair and just delivery of benefits to the neediest people. Who else is better equipped to do this than the corporate leaders? Ethical focus of these leaders will ensure total delivery of CSR benefits to the society. The coming years should see this happening.

CSR as a tool for Employee Retention – Success Story

In some of the hazardous industries, like Mining, Fertilizers and Chemical manufacturing, there is a concern regarding

employees' safety. Retention of skilled Mining Engineers and Chemical Engineers is a major challenge, faced by these industries. In case of Mining profession, which has multiple issues like remoteness of Mining locations, hazards of the operations, inadequate civil facilities and growth opportunities etc, there are symptoms of professional withdrawal as well as organisational withdrawal. This was practically experienced in Mining Companies like TATA Steel, as well as in the major Chemical and Fertilizers companies like GSFC Ltd. To overcome this, employers create several facilities, like residential colonies, subsidised bus-services, schooling facilities, special financial incentives, hazardous allowances and fast-track promotional opportunities. Yet, it was seen that the attrition of trained Mining engineers, was continuing unabated. As a counter to this, Mining Companies have come out with imaginative CSR programmes, aimed at developing the surrounding villages, with voluntary participation of employees. A strong in-house CSR committee comprising of Civil, Electrical, Utility, Environmental, HR and Public relations departments, visit the villages, and carry-out a need assessment. They actively participate in the development activities of the villages, with the support of Village Panchayat, and execute several CSR projects. Even outsourced activities of NGOs, are also closely supervised by these employee volunteers, who reflect upon the Company's social ethos, in spirit and action. It was seen that such social participation by the employees in CSR activities gave them immense satisfaction and also reduced the disgruntlement among the workers. This gave opportunities to the employees to emerge as social leaders, in areas where they operate. From small-team volunteering to implementation of mega projects, like mid day Meal scheme, construction of House Hold Sanitation Latrines, blood donation, Eye Camps, these employees were integrated to these social activities which in turn reduced their pressure upon the management, to ask more and more perquisites. When the employees see, so much of poverty and deprivation around, they tend to demand the least for themselves. The success theme is, when the company is doing so much for the society, there is a strong case for continuing with the Company, to serve the society, notwithstanding the personal hazards and hardship. Mere spending money for CSR is not good enough. It should be done with the total participation of employees, beneficiaries and all other stake-holders. The more and more there is involvement of the employees in CSR, the more they consider their company as the 'best place to work with'. This indirect spin off, is a major intangible, that has increased the happiness quotient as well as reduced the attrition of professionals like Mining Engineers and Chemical Engineers, in hazardous industries.

To Conclude...

Thus, when we combine 2% Profit, 20% Employee volunteering

and 200% of Commitment from Corporate Leadership, there will be synergistic impact. Inclusive growth is bound to happen, not only for the society, but for the very Corporate practicing this concept. We are well aware of Grasham's law, "Bad money drives out good money from circulation". The reverse of it is true, ***"Good CSR will drive out bad business practices, out of circulation"***.

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Integration Among BRICS Countries Stock Markets: Evidence From Co-Integration Analysis

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Abstract

International diversification is the most preferred way of getting more return with low risk by allocating assets in different countries. However, two assets or securities will give more diversification benefits when they are least correlated (Markowitz 1952). Correlation gives short term relationship between two variables while co-integration analysis gives long term equilibrium relationship. In line of these, the present study examines the integration among BRICS (Brazil, Russia, India, China and South Africa) using Johansen Co-integration test. The analysis carried out on daily closing prices of each countries representative stock index from January 1st, 2010 to May 31st, 2015. The analysis indicates that there exists long term equilibrium relationship between Indian and China and South Africa in bivariate test while multivariate co-integration test indicates there is long term relationship exists among these five members of BRICS. Finally we can conclude that short term divergence has been observed from VECM but in the long run they converge so there is no or very little diversification opportunity for investors to include BRICS members in their international portfolio.

Key Words : Co-integration test, Vector Error Correction model, Unrestricted VAR model, International Portfolio Diversification,

Introduction

Integration among world stock markets is increasing day by day. We are very much aware about the subprime financial crisis in the USA. The effect of the crisis was spread across the globe and this is just because of increasing integration among world economies. However, initially it affected heavily on developed markets but little impact was there on developing economies. In line of these, there were lots of studies conducted worldwide to measure the correlation and co-integration among developed countries. Apart from this, there were many studies conducted on BRIC, G7, MENA, and GCC which tried to measure the long term relationship among regional financial relationships.

However, this study examines long term equilibrium relationship

among BRICS countries stock markets. BRICS stands for Brazil, Russia, India, China and South Africa. Before 2010, there was a four emerging economies came together and form a group of BRIC. In the year 2010, South Africa became a member of BRICS which came to known as the BRICS group. Even though it has much smaller population and economy as compared to Nigeria, other factors favoured in its line like vast natural resources such as gold, diamonds, platinum, its excellent infrastructure which has established corporate footprints, a culture of innovation, easy access to finance for business, advance banking system.

South Africa is the latest entrant in this informal grouping, which held the 3rd summit meeting of its leaders in Sanya, China. The original four members of BRIC first gave shape to this club in Yekaterinburg, Russia, in June 2009, followed by a second summit at Brasilia in April 2010. Incidentally, BRIC foreign ministers have met annually since 2006. The BRICS grouping has a practical as well as an ideational role in reforming the global financial system, and in the norm-setting processes within world politics. The practical role for the BRICS resides in the original mandate of this informal grouping, which took shape chiefly after the global financial crisis of 2008. The aim of founding the grouping was to discuss economy and trade, primarily towards reform of the International Monetary Fund (IMF) and the World Bank, in order to enhance the representation of emerging economies in these financial institutions. Day by day, world is getting more co-integrated in terms of financial trade and even business. Looking to this increasing integration among countries, international diversification opportunity for domestic investors is getting decline. So researcher is interested in knowing the inter-linkages among BRICS group of countries after 2010 because in this year South Africa became the member. To measure the inter-linkages, the study employee Johansen Co-integration test with respect to India and other members of group.

The remaining paper is organized as follows. Next chapter is about literature review which theorize the concept of co-integration and very specific to BRIC and BRICS nations. Further, chapter represents importance, data and methodology part for

examining the relationship among these countries. Next chapter is dedicated to technical analysis and interpretation. Finally conclusion and result discussion with valuable references.

Literature Review

Basically, the aim of this research is to examine the long term equilibrium relationships among BRICS. There are so many past studies found on BRICs but it was found very few studies on BRICS because South Africa became the member of this group after 2010. Further literature has been extended towards co-integration methodology, BRICs, few emerging market studies with respect to Indian investors.

Research conducted by Bose S., Mukherjee P., (2005) on Study of Inter linkages between The Indian Stock Market and Some Other Emerging and Developed Markets. The degree of integration that is found to be not very high implies that the nature of integration with emerging Asian markets and also shows that there is still much scope for reaping benefits of portfolio diversification, by investing in Indian markets. Further research was conducted by Seshaiyah, S. Venkata, (2006) on Indian Capital Market Integration with Selected Developed and Developing Countries. He concluded that Indian stock market get influenced by most of the developed countries stock markets as well as by most of developing countries stock markets under study barring Japan and Taiwan.

Kedarnath Mukherjee and R K Mishra (2007) analyses International Stock market and its economic determinants: A study of Indian and World Equity Market. Interestingly India has been found to play a strong role for the countries in the Asian region except Pakistan, Philippines and Singapore during the entire study period. Further Raj J. and Dhal S, (2008) analyzed Integration of India's stock market with global and major regional markets. The lack of evidence of integration of stock markets in terms of local currency gives rise to a concern that India's stock market integration may not be complete, a finding attributable to the inadequate role of domestic investors. Further research was conducted by Sanjeet Singh and Gagan Deep Sharma (2008) on Inter-linkages between stock exchanges: A study of BRIC nations. The results reveal that there are visible effects of stock exchanges on each other. The Russian, Indian and Brazilian stocks exchanges affect each other and get affected by own return none of these affect Chinese stock exchange. B J Queensly Jeyanthi & Punithavathy Pandian (2008) analyzed an Empirical Study of Co-integration and Correlation among Indian, Emerging and Developed Markets. The findings suggest that the stock prices in major Asian markets and the United States are weak-

form of efficiency, individually and collectively, in the long run. It also implies that international investors can achieve substantial risk diversification benefits in Indian markets.

In the same year, Saif Siddiqui (2008) worked on Exploring Integration between Selected European Stock Market Indexes and SENSEX. It provided that no stock market is playing a very dominant role in influencing other markets. It is concluded that SENSEX granger because all European stock market indexes under study. None, but ATX of Austria, do the same to SENSEX. Further Chittedi, Krishna Reddy (2009) worked Global Stock Markets Development and Integration: with Special Reference to BRIC Countries. The results of co integration shows co-integrating relationship found between BRIC countries and Developed countries. Also they have concluded that these markets share short run adjustment to long run equilibrium.

Paul Alagidede, Ye Bai (2009) identified evidence on integration and diversification opportunity from BRICS. They have given few implications for portfolio diversification such as lack of co-integration among them will lead to portfolio diversification gains by including BRICS. On the contrary, higher return and higher risk in these countries and not necessarily lead to the desired overall risk reduction. Sridharan. P et.al (2009) analyzed Causal Relationship between Foreign Direct Investment and Growth from BRICS Countries. The study concludes that Growth leads FDI which is bi-directionally for Brazil, Russia and South Africa and FDI leads Growth which is uni-directionally for India and China respectively. Sarat Dhal (2009) studied Global Crisis and the Integration of India's Stock Market. They conclude that the rapid growth in the flow of foreign equity portfolio investments is leading to greater integration of the Indian equity market with global markets. Lian An. and Dean Brown (2010) examined the co-movement and indicate that there is some co-integration between the United States and China. Therefore, all of the BRIC stock markets, with the exception of China provide attractive portfolio diversification opportunities for global investors. However, most of the research ideas have been taken from the master thesis by Jose Balarezo (2010) analyses International Diversification Using Co-integration and Modern Portfolio Theory. The study was also concluded that they did not find any indication that BRIC counties share a long run equilibrium relationship which is excellent news for investors they could invest in any or all of these markets and rip the benefits of being exposed to these emerging economies while being fully diversified. Hussain Haroon, Hussain Rana Yasir, Shah, Ahmed (2010) analyses International Portfolio Diversification in

Developing Equity Markets of South Asia. Co-integration Analysis indicated that there exists no long run relationship among the equity markets of South Asia. VECM shows the similar results and no relationship found among these markets in short run.

Yash Pal Taneja (2012) worked on Stock Market Integration: A Study of World's Major Stock Exchanges with Special Reference to India. The research shows the existence of significant long-run association of Indian stock markets with US, France, Japan, Taiwan and Singapore stock markets. It draws the attention of policy makers by asserting the influence exertion of US, Japan and France market factors over Indian financial market. Kushankur Dey and Debasish Maitra (2013) studied Portfolio Selection Revisited: Evidence from the Indian Stock Market. The study suggests that although stock markets are integrated globally, the integration is very weak. Alan Harper, Zhenhu Jin, and Gregory Gleghorn (2013) argued that it is possible to gain some diversification benefits in the short term by investing in the stock markets of India and its top trading partners, in the long term, the markets do tend to move together and hence provide very limited diversification benefits. Deora Rahul, Duc K. N. (2013) analyses Time-Scale Co-movement between the Indian and World Stock Markets. Result indicate that Indian and world stock markets have a time varying scale behavior and that the shortest periodicity components appear to reflect an important part of fluctuation in the original returns.

Patel Samveg (2013) studied linkages of Indian stock market with developed market and conclude that there is no co-integration among developed markets and Indian stock markets with help of applying VECM. Further recent report was found on BRICS: Prospects and challenges by ProtivaKundu (2014). He identified India's position in BRICS. India is widely viewed as a strong emerging economy given its population characteristics, strength of democracy, large domestic market, technological acumen and investment potential. However, the country's economic potential should not be the sole parameter for its comparison with the other members of BRICS. Bilal Kargi (2014) analyzed the effect of BRICS and MATIK Countries on World Economy and Co-integration Analysis the Long Term Relation G-7 Growth Rates. It has been seen that these country groups that shows a faster growth performance than the average growth rate of world economy, slowly increased their activities in the world economy growth rate. On the other hand, G7 countries have a lower average growth rate than neither the world economy or the growth rate of BRICS+ MATIK countries.

Rationale of the study

After having a strong literature, this section entails the importance of the study. Usually, there are lots of financial, governments, regulatory framework and the share of BRICS in global economy led us to study the inter-linkages of these members. Followings are few important reasons to carry out this study on BRICS.

1. Day by day the world is being integrated in terms of many facets which can be seen and experienced from global financial crisis. Where by researchers are interested and have much focused on those countries doing excellent in global markets.
2. Looking to the growth of BRICS, researchers are interested in indentifying whether there exists international portfolio diversification opportunities for Indian investors.
3. However, as per the criterion of GDP at market prices, among the members of the G-20, China holds the 2nd position while Brazil, India, Russia, and South Africa hold the 7th, 9th, 11th, and 19th positions, respectively (BRICS Report 2014)
4. As such we found lots of studies on BRICs whereby we found the absence of South Africa just because it became the member in the end of 2010, thus researchers are keenly interested in avoiding the effect of financial crisis 2007 and want to check for long term relationship among BRICS after joining South Africa.
5. In line of the crisis, the effect spread to the BRICS through trade, finance, commodity and confidence, thus we are again interested to check whether financial markets are sharing common trend in the long run.

Objectives and Data

The study examines co-integration of Indian stock market with other BRICS member countries (Brazil, Russia, China and South Africa) through Johansen co-integration test. However, selected indices for each developing country are BOVESPA – Sao Paulo for Brazilian market, RTS - Russian Trading System for Russia, SSE - Shanghai Stock Exchange for China, JSE – Johannesburg Stock Exchange for South Africa and NSE - National Stock Exchange for Indian market. To conclude upon above objectives, the sample period is taken from 1st January, 2010 to 31st May, 2015. Some of adjustments have made in daily data because different holidays were found in different countries stock market. The necessary daily closing price data have been sourced from yahoo finance and official website of respective countries stock index.

Methodology

To satisfy the above objectives and data collected, various time series econometrics models were applied to study the long term equilibrium relationship between India and other developed and developing nations. The whole analysis was carried out in EVIEWS 6. Following are some tools used for the analysis of the study.

- Unit Root Test (ADF Test)
- Johansen Co-integration Test
- VECM

Unit Root Test

The first step in the co-integration analysis is to check whether the series considered are stationary or not at level and if it is non-stationary then to find out the order in which they are integrated. Augmented Dickey Fuller (ADF) test is widely used in literature, so the present study also revealed ADF test statistics. However, a series is said to be stationary if the mean, variance and co-variance of the series do not depend on time. While performing ADF test we proceed by considering the constant and deterministic trend in the data.

$$\Delta Y_t = \delta Y_{t-1} + e_t \text{ (Pure Random Walk Model).....(1)}$$

$$\Delta Y_t = \alpha_0 + \delta Y_{t-1} + e_t \text{ (With Constant).....(2)}$$

$$\Delta Y_t = \alpha_0 + \delta Y_{t-1} + \alpha_1 t + e_t \text{ (With Constant and Deterministic Trend).....(3)}$$

The null hypothesis $H_0: \delta = 0$ i.e. presence of unit roots for each of these equations is been tested. The test statistics against the critical values are checked and the null hypothesis is accepted or rejected if t-statistics is greater or less than the critical value respectively. Here we have used equation number 3 to test the unit root because almost all time series used to trend over a period of time. So ADF test performed with constant and deterministic trend only. Once we get the order of integration using the ADF test, we proceed with the method of co-integration to test the presence of co movement between the different stock market indices.

The Johansen co-integration test and ECM

The Johansen method is used to determine the presence of co-integrating vectors in non stationary time series; it can be applied in a bi-variate or multivariate analysis. In the case of a multivariate analysis, it has the advantage of finding and providing estimates for all the co-integrating vectors altogether within a Vector Autoregressive model (VAR). Before we move

forward, it is important to define what is a Vector Autoregressive Model? A VAR (k) model is simply an extension of the AR (p) model where there is more than one dependent variable under study and so we have more than one equation. Each equation has as explanatory variables lagged values of all variables under study. A deterministic trend could also be included in the model. The model is used to find the evolution and interdependences between several time series.

Therefore, it is a “theory free model” because economic theory is simply limited to selecting the equations in the model.

$$X_t = \mu_0 + \delta_0 t + \pi_1 X_{t-1} + \dots + \pi_k X_{t-k} + e_t \text{(4)}$$

Where X_t is a (nx1) vector of variables, δ a deterministic trend and e_t is a white noise process. Further, the Johansen method is based on the error correction representation of the equation 4, Vector Equilibrium Correction Model (VECM) that reformulates in terms of differences, lagged differences and levels of the process as follows:

$$\Delta X_t = \Gamma_1' \Delta X_{t-1} + \pi X_{t-1} + e_t \text{(5)}$$

We can see that the left hand side is stationary. Since a stationary variable cannot be equal to a non stationary expression, the only option is that the right hand side also has to be stationary. For this to happen, either $\pi = 0$, or it must have a reduced rank. To test the restrictions in π , Johansen defines two matrices α and β , both of dimensions $n \times r$ where r is the rank of π and n the number of variable $\pi = \alpha\beta'$ so above formula revised as follows:

$$\Delta X_t = \Gamma_1' \Delta X_{t-1} + \alpha\beta X_{t-1} + e_t \text{(6)}$$

Generally, there are three cases of interest in the π matrix.

- If $r = n$, then X_t is stationary and there is no need to express the system as VECM.
- If $r = 0$, there are not co-integrating relationships between the variables, that is the variables have no stochastic trends in common and do not move together over time.
- If $n > r > 0$, there are r co-integrating relationship among the n variables. In contrast with the Engle Granger method, the Johansen method can find more than 1 co-integrating relationship between the variables.

Empirical Results

Results of Stationary – ADF Unit Root Test

H_0 : Unit Root exists (Non Stationary Data)

Ha: Unit Root does not exist (Stationary Data)

Table 1: ADF Test Statistics

ADF Test Results (With Constant and Trend)				
	Level		First Difference	
Variables	t-statistics	P Value	t-statistics	P Value
NSE	-1.7835	0.7125	-34.1105	0.0000
BOVESPA	-3.5936	0.0307	-36.6453	0.0000
RTS	-2.6841	0.2434	-25.3155	0.0000
SSE	1.2226	1.0000	-9.9981	0.0000
JSE	-1.8953	0.6563	-14.2775	0.0000

(Source: E - Views Output. The critical values for ADF test is -3.47, significant at 5% level.)

Table 1 shows the ADF test statistics results. All the market indices are non-stationary because all ADF t statistics are higher than ADF critical value at level except Brazilian market. On the contrary, all probability values are also greater than 0.05 except Brazil. So we fail to reject null hypothesis and interpret that unit root presence in the series. However, unit root tests reject the same null hypothesis in the first-differenced form of the series which indicate that in first differenced form, all the series are stationary. Therefore, each stock market index is integrated in order one, or I (1). So the result of bivariate Johansen co-integration test which strongly demands that all variables must be in same order.

The Lag Order Selection Criteria

Table 2 : Lag Order Selection Criteria

Endogenous variables: LNSE LBOVESPA				
Lag	FPE	AIC	SIC	HQ
0	0.00028	-2.504555	-2.496635	-2.501584
1	0.0000000228	-11.922730	-11.898970	-11.913820
2	0.0000000228	-11.922720	-11.883130	-11.907870
Endogenous variables: LNSE LRTS				
Lag	FPE	AIC	SIC	HQ
0	0.000531	-1.865266	-1.857347	-1.862296
1	0.0000000404	-11.348520	-11.324760	-11.339600
2	0.0000000400	-11.358760	-11.319160	-11.343900
3	0.0000000401	-11.354910	-11.299470	-11.334110
Endogenous variables: LNSE LSSE				
Lag	FPE	AIC	SIC	HQ
0	0.00063	-1.693992	-1.686073	-1.691022
1	0.000000017	-12.221600	-12.197840	-12.212690
2	0.000000017	-12.220080	-12.180480	-12.205220
Endogenous variables: LNSE LJSE				
Lag	FPE	AIC	SIC	HQ
0	0.000164	-3.042478	-3.034558	-3.039507
1	0.000000019	-12.129210	-12.105450	-12.120300
2	0.000000018	-12.132760	-12.093160	-12.117900
3	0.000000019	-12.128580	-12.073150	-12.107790

FPE: Final Prediction Error

AIC: Akaike information criterion

SIC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

(Source: E - Views Output)

Table 2 represents the unrestricted VAR model for optimal lag selection criteria. Maximum 3 lags to be selected for each pairs of countries stock markets. First endogenous variables are NSE and BOVESPA where FPE, AIC, SIC and HQ values are minimum at lag one. For second pair of NSE and RTS, all lag selection criterion suggested two lags. Further the same procedure applied for rest of pairs. So to choose the optimal lag, AIC, SIC and HQ is widely used in literature. Thus, looking to the above result, we can choose 2 lag lengths for further multivariate co-integration analysis which is suggested by various lag length criteria. So finally the further bivariate Co-integration test carried out with optimal lags selected by pair wise unrestricted VAR and multivariate Co-integration test carried out with overall two lags.

Co-integration Test Analysis

Table 3 : Bivariate Co-integration Test

Variables	Lag	Trace Stat.	P Value	Max-Eigen	P Value	Decision
India-Brazil	1	8.196125	0.4447	8.082275	0.3704	No Co-integration
India-Russia	2	9.101934	0.356	9.094325	0.2784	No Co-integration
India-China	1	23.74024	0.0023	21.74428	0.0028	Co-integration
India-South Africa	2	18.4386	0.0175	18.41205	0.0104	Co-integration

(Source: E - Views Output)

The critical value for Trace is 15.49 and Max-Eigen is 14.26 at 5% significant at 5% level.

Table 3 represents bivariate co-integration test whereby dependent variable is NSE. So long term equilibrium relationship has been established between India and Brazil, India and Russia, India and China and finally India and South Africa.

Looking to the first pair India and Brazil, Trace calculated statistic (8.196) is less than trace critical value (15.49) and probability values is also greater than 0.05 that means we fail to reject the null hypothesis that there is no co-integration between Indian stock market and Brazilian stock market. In other words, we can say that both stock markets do not share common equilibrium point in the long run. The same situation was found for Indian and Russian market. They are also not co-integrated and do not converge in the long run.

On the contrary, India and China and India and South Africa found to be co-integrated at 5% significance level. As we can see from

the table number 3 that trace calculated statistics are greater than trace critical values for both pairs. The same can be proved from their corresponding probability values. For both the pair, probability values are less than 0.05 that means we reject the null and interpret that there is some co-integration between two stock markets. In other words, we can say that they share a common trend in the long run and cannot stay away for a longer periods.

Thus we can say that it is good news for Indian investors that Brazilian and Russian stock markets may provide international diversification opportunity in the long run but on the contrary China and South Africa may not be beneficial for international portfolio diversification.

Table 4 : Multivariate Co-integration Test

Unrestricted Co-integration Rank Test (Trace)				
No. of CE(s)	Eigen Value	Trace Stat.	Critical Value @ 5%	Prob.**
None *	0.028392	88.53208	69.81889	0.0008
At most 1 *	0.01713	50.7425	47.85613	0.0261
At most 2	0.013402	28.07275	29.79707	0.078
At most 3	0.006639	10.37085	15.49471	0.2533
At most 4	0.001242	1.631151	3.841466	0.2015
Unrestricted Co-integration Rank Test (Maximum Eigen Value)				
No. of CE(s)	Eigen Value	Max-Eigen Statistics	Critical Value @ 5%	Prob.**
None *	0.028392	37.78958	33.87687	0.0162
At most 1	0.01713	22.66975	27.58434	0.188
At most 2	0.013402	17.7019	21.13162	0.1414
At most 3	0.006639	8.739699	14.2646	0.3085
At most 4	0.001242	1.631151	3.841466	0.2015
Trace test indicates 2 co-integrating equations and Max-Eigen value indicates 1 co-integrating equation at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon - Haug - Michelis (1999) p - values				

(Source: E - Views Output)

Table 4 shows multivariate co-integration test results for all together BRICS. The purpose of doing this multivariate test is to check whether Brazilian market is co-integrated with Russian market or not. The trace statistics indicates two co-integrating equations while Max Eigen Value test indicates one co-integrating equation. That means all the BRICS members are co-integrated with each other and they may converge and share a long term relationship with each other. So this is bad news for Indian investor as to include these countries together in the international portfolio. However, Co-integration was found among these BRICS members so now we can go for VECM i.e. Vector Error Correction Model which indicates long term relationship to short term dynamics as follows.

Table 5 : Error Correction Terms and diagnostics check

Dependent Variable: D(LNSE)
Method: Least Square
Included observations: 1312 after adjustments
$D(LNSE) =$ $C(1)*(LNSE(-1) + 0.194629418617*LRTS(-1) - 0.02908*LSSE(-1) -$ $0.4767*LJSE(-1) - 5.5900) +$ $C(2)*(LBOVESPA(-1) - 0.07298*LRTS(-1) - 0.3169*LSSE(-1) +$ $0.7712*LJSE(-1) - 14.8850) +$

$C(3)*D(LNSE(-1)) + C(4)*D(LNSE(-2)) + C(5)*D(LBOVESPA(-1)) +$ $C(6)*D(LBOVESPA(-2)) + C(7)*D(LRTS(-1)) + C(8)*D(LRTS(-2)) +$ $C(9)*D(LSSE(-1)) + C(10)*D(LSSE(-2)) + C(11)*D(LJSE(-1)) + C(12)*D(LJSE(-2)) + C(13)$				
	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.012773	0.003979	-3.209845	0.0014
C(2)	0.008167	0.002690	3.036325	0.0024
C(3)	0.061159	0.027671	2.210221	0.0273
C(4)	-0.011818	0.027705	-0.426577	0.6698
C(5)	-0.019067	0.021129	-0.902433	0.3670
C(6)	-0.018048	0.020857	-0.865334	0.3870
C(7)	0.018804	0.015652	1.201396	0.2298
C(8)	0.004362	0.015848	0.275246	0.7832
C(9)	0.022023	0.023911	0.921063	0.3572
C(10)	0.011431	0.023916	0.477976	0.6327
C(11)	0.009493	0.022850	0.415439	0.6779
C(12)	0.011239	0.022898	0.490848	0.6236
C(13)	0.000329	0.000292	1.125598	0.2605
Diagnostics Check				
R-squared	0.019012	Breusch-Godfrey Serial Correlation LM Test	P Value	
Adjusted R-squared	0.009950		0.0658	
S.E. of regression	0.010538	Heteroskedasticity Test: ARCH	P Value	
F-statistic	2.097963		0.0000	
Prob. (F-statistic)	0.014679			
Durbin-Watson stat	2.000334			

Source: E - Views Output)

Table 5 indicates error correction term and diagnostics checks for developed model. Here dependent variable is NSE and estimation method is least square to check for the statistical significance of all coefficients generated in the autoregressive lagged model. C1 and C2 are the overall coefficients for two co-integrating equations i.e. **-0.012773** and **0.008167** which are found to be statistically significant as their probability value is less than 0.05 that means we can say from that all the BRICS members are co-integrated with each other in the long run. Further only C3 is statistically significant that means individually one past value of NSE is impacting the current price of NSE itself.

Rest of all Coefficients from C4 to C 13 are not statistically significant because all probability values are greater than 0.05 that means we fail to reject the null that is there is no impact in the long run. Further diagnostics checks where adjusted R square is very low which is not at all acceptable. But from the F statistics and its correspondence probability value i.e. 0.01468 which is less than 0.05 that means we reject the null hypothesis and interpret that overall model is statistically significant even though individually variables are insignificant.

Moreover, it is quite necessary to check for residual Autocorrelation of developed model. In other words, residuals should not be correlated. This can be seen from Durbin-Watson statistics which is 2.000334. It indicates that is no correlation in residuals. Further this can be tested with the help of Breusch-Godfrey Serial Correlation LM Test. Probability value is greater than 0.05 that means we fail to reject the null and interpret that there is no serial correlation in residuals.

Conclusion

The study examines long run equilibrium relationship among BRICS members. We conclude the research with the help of Johansen co-integration test and Vector Error Correction Model. From bivariate co-integration test, we can say that Brazil and Russia is not co-integrated with Indian stock markets that means Indian investor can diversify their portfolio in these two countries in particular while Indian stock market is co-integrated with China and even South Africa. Even though, South Africa has recently joined this BRICS, then also it found to be co-integrated that means Indian investor should not go with China and South Africa for portfolio diversification in particular.

From the multivariate co-integration test, we can say that there exists a long term equilibrium relationship among BRICS nation that means together investing in these five countries would not be beneficial for those investors who seeks to portfolio diversification in BRICS together. Further it is concluded from the Error Correction Term, which captures the adjustment toward long-run equilibrium, is statistically significant for India (First coefficient has negative sign with probability value less than 0.05), indicating the existence of a long-run relation between India and the other BRICS members' stock markets. However, this implies that deviations from the long run equilibrium relationship following short run innovations are corrected by 1.2% daily.

However, the study is applicable to individual investors and institutional investors from India who are seeking to diversify their portfolio in international financial markets just to avoid the high correlation in domestic market securities. Further, economists of the country come to know about the increasing integration among BRICS and the role of those countries in developing world. The further research can be extended on the comparison of BRICs and BRICS which means that the effect of co-integrating relationship after joining South Africa. Another future scope is that together these independent variables are not explaining Indian markets (Model adjusted R square is very low), so this kind of study can be carried out on another regions or another group of members like MENA, GCC etc to identify portfolio diversification opportunities for Indian investors in global equity markets.

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Measurement Of Shareholder Value Creation In India : A Research Design And Methodology

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Abstract

In financial management theory, it is generally accepted that the maximization of the shareholders' wealth should be the major objective of a firm (Brigham & Houston, 2001: 16). Shareholder value creation thus has become the eminent yardstick to measure the overall efficiency and effectiveness of corporations across the globe. In Indian context very few studies have been done to measure the shareholder value creation at national level. This paper outlines the roadmap to conduct a comprehensive study to measure the shareholder value creation in Indian context. The paper discusses the origin of the research problem; significance of the study, extensive literature review. It thus identifies research gaps and proposes the research design and methodology to be followed for conducting empirical studies.

Key words: Shareholder Value Creation, CSV, MVA, EVA

Introduction

Corporations primarily existed for making profit regardless of the contribution they were making towards satisfying the interest of stakeholders. Traditionally, managerial actions were driven by the motive of maximizing profit measures in terms of higher earnings per share (EPS), higher Return on Equity (ROE) or higher Return on Investments (ROI). These traditional measures had their inherent limitations as they were based on accounting statements like an income statement and balance sheet, which themselves are prepared on the arbitrary accounting assumption like accrual concept. These measures thus failed to measure the true economic performance of the companies. Moreover, these traditional measures only hinted at what had happened but did not signal the future direction. Shareholder value creation became the most prominent concept to guide the managerial decision making as it was hinting at the future expectations of shareholders and investors alike.

Shareholder value creation as a concept measures the explicit and implicit cost incurred by the company to earn a satisfactory

return required by the owners that is shareholders. It is also argued that shareholder value creation ensures the effective allocation of the scarce resources due as it emphasis on earning the excess return over the cost incurred to deploy the resources required to generate that excess return. Copeland, Koller and Murrin (1996) justify this emphasis on shareholder value by highlighting that shareholder value and national economic performance (as measured by GDP, productivity and job creation) are positively correlated. Shareholder value creation has become widely known criteria for appraising the performance of CEOs across the globe as it forces the management of the companies to deploy the resources optimally to earn higher returns over the cost of raising funds known as cost of capital. Whenever a company earns higher returns over and above its cost of capital, it contributes to wealth of shareholders. At the same time, it also ensures that company fulfills its obligations to a wider section of stakeholders, encompassing employees, customers, society and government. The financial soundness of the company enables company to pay good salaries to its talented employees, offer better quality products, provides funds for trying out innovative products to increase its market share and finally pay taxes to the government for the national development.

Significance of the study

Shareholder value creation proves to be a suitable measurement criterion to gauge the economic performance of the business units. In a country like India, where the resources are scarce and require judicious allocation to ensure the greatest good for the society, shareholder value creation perfectly fits as a tool to allocate scarce resources. Traditionally, Indian economy used to be dominated by large public sector units owned and controlled by the government. It was the need of the hour for a country which just liberated from the colonial rule. Subsequently, to keep pace with the change, Indian economy was liberalized in 1991 with the introduction of a new economic policy which created a level playing field for private players. Nowadays, some of the

private companies have outsmarted the giant public sector companies and created higher wealth for their shareholders. Even the government of the day is also persisting on improving the financial soundness of these public sector units before giving blanket monetary support. These circumstances indicate that unless companies make them self-sufficient by raising funds on their own they will be doomed to fail in the years to come. A company that creates shareholder value can easily raise money from the capital markets at national and international level given the fact that investors look at returns, the company has earned for its shareholders. A company creates value for shareholders when it earns a higher return over and above its cost of capital. In the wake of globalization of financial markets, it has become all the more important for the companies to create higher shareholder value to attract more equity capital.

In the wake of these developments, it is quite essential to undertake a study relating to measurement of the shareholder value creation in Indian context. This paper aims at proposing an outline to measure the shareholder value creation empirically to investigate the state of shareholder value creation in India.

Literature Review

The literature review section is subdivided into two subsections. The first section will highlight the studies done at the international level, whereas second subsection discusses the Indian studies.

International studies

Rappaport (1986) has been credited as the pioneer of shareholder value creation movement. He wrote a book titled "Creating Shareholder Value: A guide for Managers and Investors" and provided the theoretical framework to measure shareholder value. According to Rappaport (1986), shareholder value is a different between the corporate value and the value of debt. Dalborg (1999) indicated that value is created when the return to shareholders, in dividend and share price increases, exceed the risk-adjusted rate of return in the stock market. According to Fernandez (2002) "A company created value for its shareholders when shareholder return exceeds the required return to equity"

Stewart (1991) taking sample of 613 American companies found that companies with a positive EVA, there was a very strong correlation between the level of EVA and the level of MVA.

Uyemura, Kantor and Pettit (1996) examined the relationship between MVA and other performance measures like EVA, ROE, ROA, Net income and EPS. They found that EVA demonstrated higher correlation with MVA with a correlation of 40%. The correlation of other measure with MVA was: ROA 13%, ROE 10%,

Net income 8% and EPS 6%.

Milunovich and Tsuei (1996) found that MVA was highly correlated with EVA than with EPS, EPS growth, ROE, FCF or FCF growth.

O'Byrne (1996) found that EVA is systematically linked to market value and it is potent tool for understanding investor expectations that are reflected into a company's current share price.

Lehn and Makhija (1997) found that EVA and MVA are more associated with stock return as against accounting measures like ROA, ROE and ROS.

Bughin and Copeland (1997) analyzed the performance of more than 2700 companies from 20 countries over a ten-year period. They found that a focus on shareholder value boosts productivity and unlocks resources that benefit stakeholders of all kinds in the long term.

Bacidore et al (1997) empirically analyzed the performance of 600 firms randomly selected from the Stern Stewart performance 1000 database. They used Refined Economic Value Added (REVA) and Economic Value Added (EVA), to investigate the correlation of these measures with shareholder value creation. They concluded that EVA does quite well in terms of its correlation with shareholder value creation measured as, return shareholders earn through price appreciation and dividends in excess of that required to compensate shareholders for systematic risk.

Chen and Dodd (1997) using the data for the period 1983-92 of 566 U.S. corporations found that EVA did not have a strong association with stock return as evidence by other studies. They also found that EVA as a measure provided relatively more information than traditional measures of accounting profit in terms of strength of their association with stock return. Finally, they suggested that along with EVA, earnings per share, return on assets and return on equity should also be monitored by companies.

Kramer and Pushner (1997) found that NOPAT explained more variation in market value than EVA. They did not find any clear evidence to support the claim that EVA is the best internal measure of shareholder value creation.

Worthington and West (2001) concluded that stock returns were more closely associated with earnings than residual income, net cash flow and EVA respectively. They also found that EVA added more explanatory power to earnings than either net cash flow or residual income.

Fernandez (2002) analyzed 582 American companies using EVA, MVA, NOPAT and WACC data taken from Stern Stewart database. He found that for 296 out of 582 companies, the average correlation between the increase in MVA and the increases of EVA, NOPAT and WACC was 18%, 22.5% and -4.1% respectively.

Wet (2005) using MVA as a proxy of shareholder value, found stronger relationship between MVA and cash flow from operation. The study also revealed little correlation between MVA and EPS or between MVA and DPS.

Indian Studies

Anand, Garg and Arora (1999) found that there was a high degree correlation between PAT and MVA. They also concluded that EVA, REVA and MVA were found to be better measures of shareholder value creation.

Jalala (2008) analyzed the created shareholder value (CSV) of 25 Indian companies representing five industrial sectors (InfoTech, pharmaceuticals, FMCG, automobiles, oil and gas) for a period five years from 2001-2006. He concluded that market capitalization and other accounting methods do not measure shareholder value created.

Aminimehr and Iqbal (2008) analyzed shareholder wealth creation of car manufacturing companies of India. They found that created shareholder value (CSV) in the study period was more than benchmarks like: zero, return of treasury bonds and, required return to equity, Shareholder's returns of companies in the same industry and return of the stock market index (Sensex).

Soral and Bhanawat (2009) analyzed EVA 26 banks listed on the Bombay stock exchange. They concluded that Indian banks did not create shareholder value during the period 2003-04 to 2006-07.

Kaur and Narang (2009) using a sample of 104 Indian companies investigated the shareholder value creation through EVA and MVA measures. Their study found that sample companies as a whole registered negative EVA for eight years out of 12 years of the study period. They also found that EVA is the most significant predictor of the market value of shares.

Sakthivel (2011) taking a sample of 15 pharmaceutical companies of India concluded that there was a significant association between EVA and MVA of these companies.

Kumar and Sharma (2011) concluded that EVA is not superior to traditional accounting –based measures. They found that NOPAT and OCF outperformed EVA in explaining the market value of Indian companies.

Vijaykumar (2012) analyzed the EVA of 20 automobile companies of India. He found that 53% of the companies reported negative EVA during the terminal year of the study period. The study also revealed that sales and profit after tax demonstrated stronger relationship with EVA.

Sharma et al. (2012) concluded that return on net worth (RONW) is a useful measure for investment decision and its value relevance is statistically significant.

Dhiman and Pruthi (2012) found that companies that were destroying shareholder value had a high equity cost and were not earning the profit to cover their equity costs.

Singh and Mehta (2012) did not find any evidence of EVA dominating Net income or operating profit in explaining equity market value.

Pandya and Mehta (2013) analyzed shareholder value creation in the context of Indian banks using a sample of 10 public and 11 private sector banks for the period 2000-01 to 2009-10. Using created shareholder value (CSV) as a tool of measuring shareholder value creation, they found that Indian banks recorded statistically significantly positive CSV during the study period. The study also revealed that there was no significant difference between the average CSV of public and private sector banks in India.

Research Gaps

It is quite evident from the literature review as discussed in the earlier subsection, that a comprehensive study covering different value based measures has not been undertaken. Majority of the studies focused heavily on EVA as a measure of shareholder value creation followed by MVA. As far as our knowledge goes, very few studies have been carried out to analyze the shareholder value creation using multiple measures like: Created Shareholder Value (CSV), MVA and Total Shareholder Return (TSR) simultaneously. Moreover, in the Indian context the most studies have been restricted to either a particular sector or industry. A comprehensive study covering the national level benchmark representing all dominant sectors of the economy has not been carried out so far. In this backdrop, this study aims at laying down the research design and methodology to be followed for empirical testing of the proposed study drawing a sample of 50 companies included in the flagship index of National Stock Exchange, CNX Nifty. This research framework will thus provide platform to conduct an empirical study that will further the existing literature on shareholder value measurement in Indian context.

Research Objectives

The proposed research aims at achieving following objectives.

- To identify whether sample companies have created shareholder value during the study period using the value based measures like CSV, MVA and TSR.
- To analyze the trend of shareholder value creation of sample companies during the study period
- To identify the best wealth creators and destroyers during the study period.
- To identify the performance measure that is significantly associated with shareholder value creation.

Research Design and Methodology

- **Research design:** Research design applicable to the proposed study would be empirical as it will be empirically examining the shareholder value creation of the sample companies.
- **Sampling Unit:** All companies listed on National stock Exchange comprise the sampling unit of the study.
- **Sampling Method:** The study will be covering 50 companies included in the CNX Nifty index of National Stock Exchange. This index is the flagship index of National Stock Exchange in India. It is quite obvious that these companies represent the different sectors of the economy and thus would be able to represent the entire Indian economy.
- **Data Collection:** Secondary data in the form of profit and loss account, balance sheets, cash flow statement etc would be used for conducting the study. Data pertaining to these financial records would be culled from CMIE Prowess database. Data pertaining to stock prices of the sample companies and CNX Nifty index would be collected from National Stock Exchange website. Annual reports of the sample companies could also be used to collect data wherever possible.
- **Reference period:** Data of last ten years will be used to accomplish the research objectives subject to availability thereof. If the data are not available for the targeted period of last ten years, it may be used for the period for which they are available.
- **Tools of Measurement:** In the proposed research work, shareholder value creation would be measured through the measures like Market Value Added (MVA), Total Shareholder Return (TSR) and Created Shareholder Value (CSV).

Conclusion

The paper highlighted the significance of the study by stressing the importance of measuring shareholder value creation in changing economic landscape. It also identified the research gaps which could be further explored by conducting an empirical study. The research design and methodology outlines in the paper thus offers a sound theoretical framework to embark on the empirical study that in turn will further the existing literature on measurement of shareholder value creation in Indian context.

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Capital Market Reforms- A Revisit

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Abstract

In a well developed financial system, capital market plays the most eminent role for inclusive growth in terms of wealth distribution and making capital market safer for the investors. Developed capital market creates a sustainable low-cost distribution mechanism for multiple financial products and service across the country. In post reform era, India has witnessed a spate of innovations in the area of financial engineering as an emerging economy. In this paper we present a review of research done in the field of Indian capital markets during the pre reform years to post reform era. These reforms have resulted into a number of financial innovations like tax policies, Globalisation, liberalisation, privatisation, government regulations, and increased risk in domestic financial market.

The markets have achieved tremendous stability and as a result, have attracted huge investments by foreign investors. There still is tremendous scope for improvement in both the equity market and the government securities market. However, it is the corporate debt market, which needs to be given particular emphasis given its importance for providing long-term finance for development. The present study briefly reviews the recent literature and also examines the implications of the observed trends for the economy and the corporate sector.

Keywords: Financial market, securities, sustainable, liberalisation, economy.

Introduction

The Indian regulatory and supervisory structure of Indian securities market has been adequately strengthened through the legislative and administrative measures in the recent past. The regulatory framework for the market is consistent with the best international benchmarks, such as, standards prescribed by International Organisation of Securities Commissions (IOSCO). The recent capital market reforms along with an agenda for reforms are listed below:

- During the 1990s Extensive Capital Market Reforms were undertaken, encompassing legislative regulatory and

institutional reforms. Statutory market regulator, which was created in 1992, was suitably empowered in order to regulate the collective investment schemes and plantation schemes through an amendment in 1999. Also, the organization strengthening of SEBI and appropriate empowerment through compliance and enforcement powers including search and seizure powers were set through an amendment in SEBI Act in 2002. Although dematerialisation was commenced in 1997 after the legal foundations for electronic book keeping were provided and depositories created the regulator mandated gradually that trading in most of the stocks take place only in dematerialised form.

- Till 2001 India was the only sophisticated market having account period settlement alongside the derivatives products. From middle of 2001 uniform rolling settlement and same settlement cycles were prescribed creating a true spot market.
- After the legal framework for derivatives trading was provided by the amendment of SCRA post 1999 derivatives trading started in a gradual manner with stock index futures in June 2000. Later on options and single stock futures were introduced in 2000-2001 and now India's derivatives market turnover is more than the cash market and India is one of the largest single stock futures markets in the world.
- India's risk management systems have always been very updated and effective. The VaR based margining system was launched in mid 2001 and the risk management systems have withstood huge volatility experienced between May 2003 and May 2004. This included real time exposure monitoring, disablement of broker terminals, VaR based margining etc.
- India is amongst the few countries to have started with the screen based trading of government securities in January 2003.
- In June 2003, the interest rate futures contracts on the screen based trading platform were also introduced.
- India is one of the few countries to have started the Straight through Processing (STP), which has completely automated

the process of order flow and clearing and settlement system on the stock exchanges.

- In 2004, RBI has introduced the Real Time Gross Settlement system (RTGS) on experimental basis. RTGS allows real delivery v/s payment which is the international norm recognized by BIS and IOSCO.
- In order to improve the governance mechanism of stock exchanges by mandating demutualisation and corporatisation of stock exchanges and to protect the interest of investors in securities market the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has since been replaced by a Bill.

In order to revisit the capital market reforms, the present study has been segregated into three sections. Section I describes long-term trends in India's capital market growth. To understand them, Section II briefly reviews the recent literature. On this basis, Section III examines the implications of the observed trends for the economy and the corporate sector. Summarising the main findings, the concluding section raises some questions that seem to follow from the capital market development.

Section I: Trends

The resource mobilisation in the primary market, which was dormant for about two decades since 1960 has shown remarkably upturn from the late 1970s (Figure 1).

As per the RBI report, the growth accelerated towards the end of 1980s. Also the market capitalisation ratio went up from about 5 per cent of GDP in 1980-81 to 63 per cent in 1992-93. Post 1986, the average daily turnover in the secondary market raised at about 35 per cent per year. The RBI index of securities prices increased almost thrice (20.7 per cent per year) as fast as the wholesale price index (7.6 per cent per year) between 1980-81 and 1992-93.

This, in principle, lessens cost of equity capital and raises prospects for capital gains but much of the growth is for debt securities. Only a third is for convertible debentures. Proportion of equity capital in market mobilisation slashed down from about 90 per cent in the early 1970s to about 30 per cent within two decades later (Figure2). However, nominal value of fresh risk capital raised grew at 18 per cent per year in absolute terms. Promoters' contribution was amplified, from 21 per cent in 1970-71 to 45 per cent in 1990-91 which is more than double. This, in principle, is a positive change as they now have a greater stake in the companies' financial success (Table 1).



Proportion of equity underwritten also mounted steadily, reflecting the stock market's growing maturity [Samuel 1996a]. Furthermore, the market witnessed growth of new financial institutions offering a range of services and tradable instruments with varying components of debt, equity, maturities and risk.

When the question arises that how India compare with other 'emerging market economies (EME), than reportedly, India is the biggest among them with about 8,000 quoted companies in 1995, a growth of over 70 per cent over the last decade (*The Economist*, July 6, 1996). In terms of market capitalisation, India ranked seventh in 1995 (*The Economist*, July 15, 1995). However, as Indian firms are comparatively small (measured by market capitalisation), they do not figure in the list of top 30 firms in EMEs (*The Economist*, August 12, 1995). Proximate causes of capital market growth are a series of policy initiatives since

around the late 1970s when, as mentioned, the stock market had a marginal role in financing industry. Initially, dilution of equity holding in foreign-controlled rupee companies – commonly called the 'FERA companies', as they attracted this 1973 act - was perhaps a conscious effort to stimulate the primary capital market (Morris 1985). FERA companies' success was probably significant for further development of the market. This broadly coincided with the rise in nominal interest rates and the financial sector's growing resource constraint. Commercial banks reportedly could not meet the industrial sector's credit needs with mounting reserve requirement and 'priority sector' lending targets at concessional interest rates.

In these circumstances, development finance institutions (DFI) influence firms to raise part of the required funds from the capital market. Anticipating corporate sector's resource constraint in the Sixth Plan(1981- 85), Indian government initiated many steps in order to promote flow of household saving into capital market (Planning Commission 1982). The steps included rise in interest rates on debt instruments, their convertibility into equity, ascending up of tax exemption limits on dividend income and simplifying its (and interest) education at source. Similarly, corporate tax rates were also reduced. Thus capital market reforms since 1991 perhaps reflect a continuation of a trend initiated over a decade ago. To explore answers to various questions like impact of these trends (and policies that seem to underpin them) for long - term development, how does it necessarily mean a greater allocate efficiency as resource use is increasingly market determined etc, the recent analytical literature and comparative experience is briefly reviewed in

Table 1.

Table 1 : Proportion of promoters' subscription to equity capital raised, 1970-71 To1990-91*	
Year	%
1970-71	20.7
1975-76	9
1980-81	22.5
1986-87	24
1987-88	38.3
1988-89	28.5
1989-90	56.9
1990-91	45

* 'Promoters' include collaborators and employees.

(Source: RBI Report on Currency and Finance, 1991-92)

Section II: An Analytical outline

The studies of literature on financial markets, Mackinnon (1973) and Shaw (1973) form the points of departure. They argue that

state intervention in order to set interest rates and quantitative measures of resources allocation, which are commonly defined as financial repression, do adversely affect the allocated efficiency but also depresses the aggregate saving rate (hence investment) in less developed economies (LDCs). Therefore, they support liberalisation of financial markets. However, most of their arguments are related to interventions in banking, including interest rates ceiling, statutory reserve requirements and directed lending programmes at concessional interest rates etc. Extending their thesis, Cho (1986) argued that financial market liberalisation may remain curtailed without an efficient market for equity capital as a means of spreading risk (and reward). In principle, stock market, which is an indispensable part of a well organised financial system, has many advantages. It allows sharing of risk efficiently. The market induces gathering of information which gets reflected in stock prices. Resource allocation is signalled by these prices.

In the secondary market, for managerial incentives and corporate governance, stock prices are powerful signals. Attributing part of the debt crisis of the 1980s in LDCs to inadequate development of their financial markets, the World Development Report (WDR), 1989 [World Bank 1989] broadly reflects the preceding analytical position. However, recognising information failure that can be critical in financial markets, the report argues for a strong supervisory mechanism and institutions to ensure their efficient functioning. On these considerations, policy-based lending and technical assistance for capital market development was offered by the World Bank. In many LDCs, Stock market growth over the years perhaps reflects these policies and financial incentives. In India too, of late, much of the policy discussion seems to follow this influential thought. For industrialisation, capital was believed to be a major constraint, as banks supply only short-term loans. In most LDCs, capital markets were practically non-existent, state promoted DFIs (often supported by World Bank's advice and lines of credit) were expected to make up for the dearth of an efficient capital market.

Keynes precepts about the same (and fickleness) of the stock market and banks' limitation in meeting long-term financial needs of industrialisation perhaps underpinned much of the former policy. Gerschenkron's (1962) past account offered empirical support for it. Many believe that the major reasons for the post-war success of Japanese and German growth and productivity is the institutional set up difference for financing industry (Zysman 1983, Dore 1985, Dimsdale and Prevezer 1994). In these economies, big firms and banks have close financial (and

managerial) links, while stock markets are comparatively skinny and illiquid. Hence, firms reportedly take a long-term view of corporate success. On the other hand, firms in the US and UK have arms length relations with banks. As the market valuation of firms depends on quarterly/half-yearly financial performance, they are apparently more concerned about short-term prospects.

A multiplying opinion seems to find the US system of stock market - though efficient and liquid - unsatisfactory for corporate governance. (Bhide 1994). Another contributing factor for questioning role of capital markets in financing development is the recent empirical research that revived the 'financing hierarchy' hypothesis in corporate finance literature (Koch 1943, Donaldson 1961). On the Contrary to the widely held belief, Mayer found, using company balance sheet data, that stock market's role (net of redemption) and internal resources finance bulk of corporate (physical) investment in major OECD countries is very limited. He explained that the plough backs are the dominant source of finance in all countries, -whereas external financing is generally done from banks rather than from securities. Stiglitz reiterating the same stylised fact highlights problems of information failure that are severe in financial markets and notes the need for state intervention (Stiglitz 1991, 1993). He articulated, "... we must bear in mind the quite limited role that they (market for equity) play in raising capital in developed countries. Hopes of raising substantial amounts of capital in this form within LDCs appear to me to be unreasonable." In a footnote, he further adds, "Today, investors in LDCs bring to bear the full experience of how equities have been abused, even in societies with fairly well functioning legal systems. This should have made them wary about what would happen in LDCs" (Stiglitz 1991:11). Thus, two broadly competing perspectives seem to be there. First, the financial liberalisation thesis that focuses centrality of stock market in resource allocation and the secondary market's disciplining role on managerial behaviour. Secondly, information economics theorists who, worked on this theory and history, argue for its limited role. In development economics, stock market did not receive proper attention as it is a recent phenomenon in LDCs.

As per the previous literature, Singh and Hamid (1992) and Singh (1995), analysing pattern of corporate financing of top 50 (100) private corporate firms in nine (ten) EMEs in 1980s, are significant efforts. On contrary to the OECD experience they found, on average, equity capital finances about 40 percent of corporate investment growth in these economies. However, Cobham and Subramaniam (1995) observe the limitations of sample size and methodology, considerably qualify Singh's

finding. Follow in and Mayer's methodology, they reveal role for equity in financing corporate growth in India is much- restricted. To quote them: ... India is broadly comparable to... France and Italy which have relatively small stock market (with no market for corporate control), large sectors of medium and small sized companies and a banking system which lends substantial amounts to companies but does not have very close ties with firms and cannot exert the same influence and control over them typical of Japanese banks (Cobham and Subramaniam 1995).

Singh (1992) advocated that the genuine test for capital market in developing economies is its effect on saving, growth and investment. To quote him: ...the important question is whether the development of the stock markets in these economies has led to an increase in aggregate savings or whether it simply represents the substitution of One form of saving.

Section III: Facts

India's corporate sector: A brief account

In the present study, the corporate sector is termed as non-financial, non-government joint stock companies. As this sector is a gateway to bulk of the capital market resources, it will be valuable to start by describing the broad dimensions of this sector. In 1994, it consisted of nearly 3.4 lakh registered companies (Department of Company Affairs 1995). Slightly less than 50% of them are engaged in manufacturing and about a 25% in 'finance, insurance, real estate and business services'. However, massive of corporate value added originates in registered manufacturing. Barely about 12 per cent of the corporate sectors are public limited companies, yet they contribute for about 80 per cent of the total paid up capital. Amongst public limited companies, 43 per cent of net value added in the corporate sector is accounted by the top 670 companies in 1986-87 (CMIE (1994) and Datta Roy Chaudhury (1992)). Merely about 2 per cent of public limited companies accessed capital market in 1993-94. Corporate sector constituted about 27 per cent of non-agriculture, 11 per cent of current GDPfc in 1986-87 (about 9 per cent in 1960-61) and, private sector GDPfc (Datta Roy Chaudhury (1992) and National Accounts Statistics). Within the corporate sector, share of public limited companies in value added declined by 10 per cent (from 80 per cent), over two and a half decades from 1960-61. This appears to broadly correspond to faster growth in the number of private limited companies.

In other words, private limited companies, representing mostly minor and closely held firms, increased their share in corporate

sector value added. These statistics show the relative size of India's corporate sector and the (skewed) distribution of firms in it.

Section IV: Conclusion

In crux, India's capital market has witnessed a swift growth since around 1980. It accelerated by the end of the decade. This is also crucial in comparison with other emerging market economies. Incentives offered on traded securities, increases in nominal interest rates since early last decade, and changes in related policies (and procedures) seem responsible for this development. A well functioning stock market also has a screening and monitoring role. The financial liberalisation thesis posits its likely positive and encouraging effect on the economy's saving, investment and efficiency. However, recent advances in various analytical literature highlights the possible inefficiencies in financial markets due to imperfect and flawed information that could be sensitive in LDCs, and underscores the need for state intervention. Further, the new evidence on corporate financial structure in major OECD countries while reviving the financing hierarchy hypothesis shows that the stock markets barely contributed to fixed investment. Secondary market's role in improving and advancement of corporate governance is also open to a serious debate both on theoretical and empirical grounds.

This study examined the implications of the India's capital market boom for the economy and the corporate sector in the light of these competing perspectives. In post reform era, capital market growth has changed domestic financial saving's composition from bank deposits to 'shares and debentures', without favourably influencing domestic saving rate, or its share in financial assets. Also equity capital's share in the total capital market mobilisation dropped down, as bulk of such mobilisation is in the form of debt securities. However, growth rate of fresh equity capital raised is significant including Promoters' contribution to it which has more than doubled. This could possibly perk up financial performance as promoters have a greater stake in their firms. Over the past last two decades, the corporate sector that secured most of these resources, onlooker a long-term decline in the share of internal finance in corporate physical investment. In mid-1980s, retained earning share very little of about less than 10 per cent of gross internal resources. Despite of a steady fall in tax burden (tax provision as proportion of gross profits), this happened. These changes are quite at variation with the developed countries' experience, where retained finance forms the largest and stable source of finance for

corporate capital formation. In 1980s, composition of non internal finance shifted away from trade credit to equity capital (including share premium), while the proportion, of borrowed fund remained high and increase somewhat. However, within borrowing, debentures were replaced by bank credit and fixed deposits. There is no statistically proven association between capital market resource mobilisation and increment in corporate fixed investment or rise in this sector's real value added. Thus, we have witnessed, mainly, financial disintermediation, with little effect on aggregate saving rate and corporate investment and output growth rates. This seems quite similar to what happened in many other developed economies with financial deregulation about a decade ago. All indicators of corporate profitability show a decline in 1980s.

Capital market is not merely an institution for resource mobilisation, but equally crucial, a market for corporate control that necessarily follows. Assume that, over time, widely perceived capital market imperfections are overcome with better regulation and technology. Are we, then, prepared for contestability of corporate management through mergers and take-overs in the secondary market? Assuming such a market is organised efficiently, does it necessarily enhance corporate performance? These debated issues in developed economies seem to have an increasing relevance for India.

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An Empirical Testing of Tacit Knowledge Prevalent In Stock Market

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Abstract

The choice of stock analysis is determined by the investor's belief in the different paradigms for "how the stock market works". To determine this two approaches are there in stock market. One is Fundamental analysis and another one is Technical Analysis. Fundamental Analysis maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Technical analysis maintains that all information is reflected already in the stock price. Trends 'are your friend' and sentiment changes predate and predict trend changes. Apart from these one more knowledge investors use to invest in stock market is tacit knowledge. Tacit knowledge is made up of best practices, experience, wisdom and un-recordable intellectual property that live within individuals and teams. Since tacit knowledge exists within minds, it cannot be reduced to the digital domain as a material asset, or be manipulated directly. The present study is just a humble effort to empirically test the tacit knowledge prevalent in the stock market for investment purpose.

Key Words: Knowledge, Tacit Knowledge, Investment, Stock Market

Introduction

When the objective of the analysis is to determine what stock to buy and at what price, there are two basic approaches. The first one is the Fundamental Analysis. It maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mispriced security and then waiting for the market to recognize its "mistake" and reprise the security. The second one is Technical Analysis. It maintains that all information is reflected already in the stock price. Trends 'are your friend' and sentiment changes predate and predict trend changes. Investors' emotional responses to price movements lead to recognizable price chart patterns. Technical analysis does not care what the 'value' of a stock is. Their price predictions are only extrapolations from historical price patterns.

For example many fundamental investors use technical for

deciding entry and exit points. Many technical investors use fundamentals to limit their universe of possible stock to 'good' companies. Investors can use any or all of these different but somewhat complementary methods for stock picking. The choice of stock analysis is determined by the investor's belief in the different paradigms for "how the stock market works". Apart from these one more knowledge investors use to invest in stock market is **tacit knowledge**.

Tacit knowledge

Tacit knowledge has been described as "know-how" - as opposed to "know-what" (facts), "know-why" (science), or "know-who" (networking). It involves learning and skill but not in a way that can be written down. The process of transforming tacit knowledge into explicit or specifiable knowledge is known as codification, articulation, or specification. Tacit knowledge is not easily shared. It involves learning and skill, but not in a way that can be written down. In the field of knowledge management, the concept of tacit knowledge refers to a knowledge possessed only by an individual and difficult to communicate to others via words and symbols. Knowledge that is easy to communicate is called explicit knowledge. With tacit knowledge, people are not often aware of the knowledge they possess or how it can be valuable to others. Example of tacit knowledge is the ability to ride a bicycle. The formal knowledge of how to ride a bicycle is that in order to balance, if the bike falls to the left, one steers to the left. To turn right the rider first steers to the left, and then when the bike falls right, the rider steers to the right. Knowing this formally, however, is no help in riding a bicycle, and few riders are in fact aware of this.

Current practices to know tacit knowledge

Working from the premise that knowledge is inherently personal and will largely remain tacit; the tacit knowledge approach typically holds that the dissemination of knowledge in an organization can best be accomplished by the transfer of people as "knowledge carriers" from one part of an organization to another. To make wider use of the tacit knowledge of individuals,

managers are urged to identify the knowledge possessed by various individuals in an organization and then to arrange the kinds of interactions between knowledgeable individuals that will help the organization perform its current tasks, transfer knowledge from one part of the organization to another, and/or create new knowledge that may be useful to the organization. Let us consider some examples of current practice in each of these activities that are typical of the tacit knowledge approach. Most managers of organizations today do not know what specific kinds of knowledge the individuals in their organization know. This common state of affairs is reflected in the lament usually attributed to executives of Hewlett-Packard in the 1980s: *"If we only knew what we know, we could conquer the world."* As firms become larger, more knowledge intensive, and more globally dispersed, the need for their managers to "know what we know" is becoming acute. An example of such an effort is the creation within Philips, the global electronics company, of a "yellow pages" listing experts with different kinds of knowledge within Philips' many business units. Today on the Philips intranet one can type in the key words for a specific knowledge domain say, for example, knowledge about the design of optical pickup units for CD/DVD players and recorders -- and the yellow pages will retrieve a listing of the people within Philips worldwide who have stated that they have such knowledge. Contact information is also provided for each person listed, so that anyone in Philips who wants to know more about that kind of knowledge can get in touch with listed individuals.

An example of the tacit knowledge approach to transferring knowledge within a global organization is provided by Toyota. When Toyota wants to transfer knowledge of its production system to new employees in a new assembly factory Toyota typically selects a core group of two to three hundred new employees and sends them for several months training and work on the assembly line in one of Toyota's existing factories. After several months of studying the production system and working alongside experienced Toyota assembly line workers, the new workers are sent back to the new factory site. These repatriated workers are accompanied by one or two hundred long-term, highly experienced Toyota workers, who will then work alongside all the new employees in the new factory to assure that knowledge of Toyota's finely tuned production process is fully implanted in the new factory. Tacit knowledge is made up of best practices, experience, wisdom and un-recordable intellectual property that live within individuals and teams. Since tacit knowledge exists within minds, it cannot be reduced to the digital

domain as a material asset, or be manipulated directly. However, it expresses in the social realm as the response ability of individuals (productivity, innovation and initiative), and teamwork (communication, coordination and collaboration).

Literature Review

Harlow (2009) studied the use of the tacit knowledge index (TKI) to assess the level of tacit knowledge within firms and its effect on firm performance. A sample of 108 US and Canadian firms that are using knowledge management was surveyed to determine each firm's TKI. This measure includes both the degree of usage and the tacitness of the knowledge management method. Regression and correlation were used to statistically analyze the innovation and financial outcomes. Significant relationships were found between a firm's level of TKI and the firm's innovation performance. Less clear is the relationship between a higher TKI and financial measures.

Research Methodology

Problem Statement

"An empirical testing of tacit knowledge prevalent in the stock market"

Research Objective

To empirically test tacit knowledge of brokers and investors in equity market.

Research Design

In this study, descriptive research design has been used by the researcher. Secondary data have been collected by the researcher for the purpose of testing validity of tacit knowledge in equity market. For these purpose researcher had collected data related to various companies from Capitaline Software. Researcher selected 110 companies by Non probabilistic convenience sampling method to test 7 hypotheses.

Variables under study

P/E ratio, Dividend payout ratio, Share splits, Share buyback, Bonus issues, Book value, Market value, Market capitalization

Research Hypothesis

The researchers framed the tacit knowledge which is prevalent in the stock market into research hypothesis which is given below:

1. Firm gives more return if its dividend payout ratio is more than 50% of its earnings.
2. Firm gives comparatively more return if its market capitalization is higher.
3. Firm gives more return if its book value is more than its market

value.

4. Firm gives more return if it issues bonus shares.
5. Firm gives more return if it buyback or repurchase its some of the outstanding shares.
6. Firm gives more return if it splits its shares.
7. Firm gives more return if its company P/E ratio is lesser than its industry P/E ratio.

Findings

To test the above hypothesis the researcher selected sets of companies which are having two different treatments. E.g. For first hypothesis two sets of companies: (a) the companies having dividend payout ratio more than 50% (b) the companies having dividend payout ratio less than 50%. Similarly for other hypothesis two different sets of companies were selected. The findings are discussed below:

1. There is no significance effect of dividend payout ratio on return of the firm.
2. There is no significance effect of market capitalization on return of the firm.
3. There is no significance effect of book value on return of the firm.
4. There is no significance effect of bonus issues on return of the firm.
5. There is no significance effect of share buyback on return of the firm.
6. There is no significance effect of share splits on return of the firm.
7. There is no significance effect of P/E ratio on return of the firm.

Conclusions

Thus, from the above study it can be concluded that all of 7 null hypotheses which have been accepted. So there is no significant effect of dividend payout ratio, market capitalization, book value, bonus issues, share buyback, share splits, and P/E ratio on return of the firm. It can be concluded tacit knowledge of brokers and investor which is prevalent in stock market is irrelevant for estimating return of the company.

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Annexure-I

Table 1: Hypothesis Testing

HYPOTHESIS	INDEPENDENT VARIABLE	DEPENDENT VARIABLE	Z SCORE	P-VALUE	NULL HYPOTHESIS
1.	Dividend Payout Ratio	Return	-1.209	0.226	Accept
2.	Market Capitalization	Return	-1.512	0.131	Accept
3.	Book Value, Market Value	Return	-0.151	0.880	Accept
4.	Bonus Issue	Return	-0.261	0.794	Accept

5.	Buyback	Return	-0.261	0.794	Accept
6.	Share Splits	Return	-0.709	0.478	Accept
7.	Company P/E Ratio, Industry P/E Ratio	Return	-1.663	0.096	Accept

(Source: Calculated Data)

Annexure-II

Table 2: Companies Selected for Hypothesis No.1

Company	Payout Ratio	Return (%)	Company	Payout Ratio	Return (%)
3i Infotech	117.21	23.62	20 Microns	25.04	15.27
Accel Frontline	63.41	9.1	A.K.Capital Serv	7.12	26
Aditya Bir. Nuv.	156.28	3.74	Aarti Drugs	22.06	14.95
Akzo Nobel	56.14	9.88	Aban Offshore	10.39	6.55
Alembic	55.51	11.83	Abbott India	33.79	37.86
Alfa Laval (I)	76.13	38.43	ABG Shipyard	9.49	17.01
Alfa Transformer	83.08	-2.21	ACC	29.03	17.67
AMD Industries	69.82	3.75	Accentia Tech.	3.64	30.91
Apar Inds.	107.58	30.22	Ace Soft. Exp.	36.92	-0.84
Apcotex Industri	224.32	0.54	AcroPetal Tech.	3.75	17.19

(Source: Calculated Data)

Table 3: Companies Selected for Hypothesis No.2

Company	Market cap above 50000	Return(%)	Company	Market cap below 50000	Return(%)
Reliance Inds.	239721.22	15.14	IOCL	46186.45	6.35
ONGC	166767.69	23.32	HDFC Bank	41170.4	16.86
NTPC	148583.19	14.63	HDFC	40141.58	9.71
Bharti Airtel	118791.86	30.3	SAIL	39837.71	24.14
Infosys	75847.1	37.37	Larsen & Toubro	39397.11	21.25
BHEL	73640.94	24.11	ICICI Bank	37027.03	7.26
MMTC	70687.75	14.8	Rel. Comm.	36037.79	16.8
ITC	69750.91	25.41	Wipro	35949.87	30.55
State Bank of India	67713.13	16.21	Cairn India	34908.21	1.81
TCS	52844.4	37.5	GAIL (India)	30982.62	19.11

Table 4: Companies Selected for Hypothesis No.3

Book Value > Market Value			
Company	Book Value	Market Value	Return
20 Microns	24.92	10.79	15.75
21st Cent. Mgmt.	48.98	1.67	3-8
A.K.Capital Serv	193.79	57.9	36.38
A2Z Maintenance	103.11	96.29	28.66

Aarti Drugs	105.24	45.47	20.01
ABG Infra	389.33	55.84	-1.52
Accel Frontline	47.42	11.68	5.47
Accentia Tech.	87.36	78.86	45.65
Ace Soft. Exp.	32.67	0.8	1.77
AcroPetal Tech.	97.88	50.92	41.91

(Source: Calculated Data)

Table 5

Book Value > Market Value			
Company	Book Value	Market Value	Return
3i Infotech	71.66	114.76	23.58
Aarti Inds.	51.27	115.56	16.19
Aban Offshore	375.14	647.52	9.66
ABG Shipyards	164.73	256.81	22.54
ACC	256.77	1933.82	29.17
Action Const.Eq.	15.66	27.57	14.9
Adani Enterp.	122.41	1124.5	17.09
Adani Power	12.42	205.35	4.13
Adhunik Metal	38.46	204.74	22.05
Aditya Bir. Nuv.	575.55	910.05	0.3

Table 6: Companies Selected for Hypothesis No.4

Company	Bonus Announcement Date	Before 1 mthReturn(%)	After 1 mth Return(%)
Amtek	12/10/2011	-2.43	-0.54
Coromandel	18/10/2011	6.58	-0.78
Dhanus	18/08/2011	-2.05	11.05
Dpsc	08/11/2011	-3.48	34.94
Entegra	12/08/2011	-0.43	-3.18
India Nippo	08/08/2011	-0.4	1.73
Jocil	08/08/2011	-3.87	-3
Monsanto	13/08/2011	0.73	-3.89
Nitin Fire	11/08/2011	6.7	9.8
Pantaloon	25/08/2011	10.03	-9.11

(Source: Calculated Data)

Table 7: Companies Selected for Hypothesis No.5

Company	Offer Suspended Date	Return Before 1 mth(%)	Return After 1 mth(%)
Aegis Logistic	26/02/2010	-4.42	12.76
Akzo Nobel	27/07/2007	-1.24	0.86
Alembic	16/11/2009	4.74	3.4
Merck	21/05/2010	1.42	13.73
Monnet Ispat	22/05/2009	4.24	-8.06
Mro-tek	25/02/2010	2.47	3.25
Natco Pharma	31/07/2007	1.09	-8.74
Nava Bharat	20/08/2009	13.57	-3.74
Panacea Biotek	12/10/2010	3.1	4.01
Patni Computer	28/10/2008	-20.05	0.07

(Source: Calculated Data)

Table 8: Companies Selected for Hypothesis No.6

Company	Date	Return Before 1 mth(%)	Return After 1 mth(%)
banas fin	12/9/2011	51.08	38.59
best eastern	20/10/2011	5.04	30.12
Bhel	03/10/2011	-4.02	2.91
blue services	21/10/2011	45.14	18.88
Carborundum	05/10/2011	0.63	7.94
Crisil	28/09/2011	-4.58	4.52
Cronimet	03/11/2011	10.41	-31.31
Dynacons	03/11/2011	1.45	-18.77
Gfl	29/11/2011	-19.78	-55.64
Hatsun	03/10/2011	-5.54	9.71

(Source: Calculated Data)

Table 9: Companies Selected for Hypothesis No.7

Company PE is less than Industry PE			
Company	Latest P/E Ratio(BSE)	Latest Industry P/E(BSE)	RONW
Aegis Logistics	11.14	132.99	13.86
Alfred Herbert	15.15	20.86	1.88
Ambalal Sarabhai	0	34.58	-20.23

Amrutanjan Healt	16.46	34.58	10.66
Andhra Cements	0	11.01	24.21
ABC Bearings	5.3	15.63	28.03
Apple Finance	10.5	20.86	1.13
Aravali Sec.	0	20.86	-3.64
Arvind Ltd	13.12	86.82	7.8
Ashok Leyland	13.57	42	25.29

(Source: Calculated Data)

Table 10

Company PE is more than Industry PE			
Company	Latest P/E Ratio(BSE)	Latest Industry P/E	RONW
ACC	20.64	20.08	17.94
Advance Petroch.	19.55	13.16	11.06
AP Paper	0	-18.23	8.31
Apollo Tyres	22.76	14.94	10.97
Asian Paints	35.38	29.68	43.89
SKF India	18.48	15.63	22.64
Astrazeneca Phar	88.23	28.59	31.65
Atlas Copco (I)	38.06	27.11	33.68
Atlas Cycles	28.94	15.8	3.17
Bajaj Holdings	16.54	16.2	23.58

(Source: Calculated Data)



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A Study On Problems And Prospects of Industry Oriented Training Programs To Provide Employable Professionals

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Abstract

"When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes." Dr. APJ Abdul Kalam .

These days, the job market is so saturated that it is difficult to find a well rewarding job just after graduation. Even when it comes to professional courses like **Engineering**, the scenario is not rosy at all. This situation prevails in both developed and developing nations! What can be done to improve the situation? We can't go around and try to improve world economy all by ourselves! But yeah, we can definitely add something extra to our graduation degree. By something extra with the help of Industry oriented program. The idea behind IOTP (Industry oriented training program) is to raise confidence, improve productivity and give direction through proper skill development. Skill development will enable the youths to get blue-collar jobs. Development of skills, at a young age, right at the school level, is very essential to channelize students for proper job opportunities. This is a conceptual study which highlights the problems and prospects of Industry Oriented Training programs to provide Industry ready professionals.

Key Words: Rewarding, Professional, Saturated and Skill development.

Introduction

India is one of the countries where working age population is very high. To resolve the problem of unemployment, it is right time for taking measures to improve the physical and mental development of the youths of the country so that none of them remains unemployed and the country's unemployment problem also gets reduced. It is time to open up avenues by which the youth accepts responsibility and no one remains idle because an idle youth is a burden to the economy.

In previous years, most of the Engineering and Management aspirants used to judge the Engineering and Management Institute based on its placement history. Now days, the focus is

shifted from placements to sustainable placements or recruiters' feedback. In this way, alumni are playing a very important role at this stage. The question arises that why and how? Alumni are the brand ambassadors of any educational institute and the excellent feedback by corporate world creates a sustainable industry interface with such Institution. Those successful alumni also share very positive feedback of an Institute. Alumni performance at the company is affected by several factors in which the major factor is the skills that they had adapted during their studies.

The idea behind IOTP (Industry oriented training program) is to raise confidence, improve productivity and give direction through proper skill development. Skill development will enable the youths to get blue-collar jobs. Development of skills, at a young age, right at the school level, is very essential to channelize students for proper job opportunities.

The aims of these program sare to fulfill/ match, any gap, in so far practical/hands on experience of fresh Graduate Engineers, Diploma holders and 10+2, Vocational pass-outs and also to enhance their technical skills for making them suitable for the job absorption, as per the needs of the Industry.

The basic objective of these training programs is to help the students, acquire professional skill so that students can either start their own business or they find a suitable opening in the corporate world. It helps students to transition smoothly to the corporate world or will help them in their life to manage their own business.

The Government of India has always considered skill development as a national priority. It is just that since the ministry is new, the approach taken for skill development is also new. Earlier, the emphasis was on traditional jobs. But this time, all kinds of jobs will be given equal emphasis. Earlier, the responsibility was divided among various ministries, but this time, these are being clubbed together. The ministry of skill development and entrepreneurship will be the principal ministry which is going to coordinate with other ministries and organizations.

Objectives of Study

1. The basic objective of the study is to highlight the benefits of Industry oriented programs.
2. The paper will also take in to consideration of problems and prospects of these programs.
3. It will be concluded with suggestions to improve the efficiency of these programs.

Literature Review

Although industry oriented courses are new concept for Indian economy, still some of the authors have covered its importance, types and its opportunities for the market.

Arunkallarackal has explained in his article that these days, the job market is so saturated that it is difficult to find a well rewarding job just after graduation. Even when it comes to professional courses like **Engineering**, the scenario is not rosy at all. Thanks to saturated job market and not so good economic conditions, landing a good job and keeping it has become a daunting task. He has focused on Electrical Engineers industry oriented programs (Kallarackal, A. 2015).

India is one of the emerging markets in the world. India's change from an agrarian economy to an industrialized economy is lagging due to the shortage of skilled labour. Although the country has enough potential to deliver to the needs of the global talent market, the strong employability challenge of the graduates; especially engineering graduates became the bottleneck for India's growth perceptive (Talent shortage Survey, 2005). (Global Talent Risk-seven responses, 2011).

Even in India, which produces 400,000 engineers annually, corporations are finding it increasingly difficult to find the qualified workers they require (Replacement Migration, 2009).

Employability is a difficult concept to define – it is a multi-dimensional concept, and there is a need to distinguish between factors relevant to obtaining a job and factors relevant to the preparation for work (Little, 2001).

Employability is not just about students making deposits in a bank of skills (Morley, 2001) .

Knight (P. Knight M. Yorke, 2001) and Yorke (P. Knight M. Yorke, 2001) consider the concept of employability to be a 'synergic combination of personal qualities, skills of various kinds and subject understanding'.

It is a concept that is much more complex than the relatively restrictive key skills agenda, as focussed on by Dearing (Dearing, 1997) which has obscured a greater understanding

of employability (P. Knight M. Yorke, 2001). Yorke also suggests that traditionally, little emphasis has been placed upon a student's personal qualities, but that these could have considerable bearing on a particular student's success (Section 4.2). Therefore, there are two main concepts of employability, (P. Knight M. Yorke, 2001) these are:

1) The educational conception relating to the ability of graduates to tackle 'graduate' jobs. This is related to the notion of 'capability' whose development was sponsored by the RSA in the late

1980s - 'Higher Education for Capability'. This means that employability of graduates relates to

LTSN Generic Centre 3 October 2002 their being equipped for a job and capable of being employed, rather than job acquisition (L. Harvey, 2000).

2) The ability of the graduate to get a job – any job. The second concept is used by the Government in the construction of the Employability Performance Indicators (EPIs), but it is the first concept that most practitioners are primarily concerned with. Good student learning and the curriculum, teaching and assessment that goes with it, describes 'education for employability' well (P. Knight M. Yorke, 2001). This implies that curricula designed to enhance students' employability are also desirable on purely educational grounds. It is possible to see both the traditional academic education and key skills as being subsets of 'employability'. It is difficult to maintain that academic progress is not enhanced by high standard of literacy and numeracy, by a range of communication skills and the ability to work in groups or teams, and by learning how to learn effectively (Atkins, 1999).

Yorke (P. Knight M. Yorke, 2001) considers that it is not enough to have a range of cognitive, social, emotional and behavioural sub-skills, but that these have to be integrated into the challenges that are faced. Therefore, perceived self-efficacy or ability will play an important role in choice of degree programme, career choice and personal development, and is thus significant for an individual's employability. Personal qualities are also important in the acquisition of subject understanding and the development of skills. A willingness to learn – often from mistakes – implies a preparedness to tolerate a degree of stress in order to achieve success (P. Knight M. Yorke, 2001).

Features of Industry oriented programs

- The most valuable feature of these programs is that they are job oriented programs which is highly required in country like India.

- These programs are providing practical knowledge along with guidance of current market scenario, so candidates become more practical towards decision making process.
- The emphasis of these programs is to develop skills in the youths in such a way so that they get employment and also improve entrepreneurship.
- It provides training, support and guidance for all occupations that were of traditional type like carpenters, cobblers, welders, blacksmiths, masons, nurses, tailors, weavers etc. as well as modern professionals who have degree but due to lack of skills are not in position to avail the job.
- More emphasis in these programs are given on new areas like real estate, construction, transportation, textile, gem industry, Jewelry designing, banking, tourism and various other sectors, where skill development is inadequate.
- These training programs are offered by various institutions on various levels. Some are of international level and national level where as some are on local level. So that the youths of our country can not only meet the domestic demands but also of other countries like the US, Japan, China, Germany, Russia and those in the West Asia as well as after the course they may focus on the local resource to use in best way and can contribute for overall development.

Benefits to the students/candidates

These courses are beneficial for the candidates in following ways:

- **More opportunities for Job:** These kinds of programs are providing more opportunities for job because they are practical training based program and they fill the gap between demand and supply of professionals.
- **Good exposure:** The basic objectives of these programs are to provide industry ready professionals so institutes trained the candidates in such a way that they can easily survive in market.
- **Improvement in communications skills:** today communication skill is need of all blue collars Job. These courses works a lot to improve and develop communication skill use right body language and presentation skills. It also helps in
- **Confidence Building:** Confidence is the foundation for everything in life. Self-confidence can change one's professional and personal life to the better while lack of confidence will definitely have a negative effect on social

relations, career, and achievements and even on mood of working. It is found that these programs boost the confidence of candidates to work in any environment.

- **Interview handling skills:** Now a days interview become the essential part of all recruiters for selecting process. It is not important how much one knows, the important is how much he/she is capable to present in front of interviewers. These programs help to develop interview handling skills.
- They will have positive approach towards professional goal. It helps to grow overall.
- They will develop themselves as more employable students.
- They will be in a position to express them better in professional life as well as in personal life.
- Create opportunities for all to acquire skills throughout life, and especially for youth, women and disadvantaged groups: High inclusivity is one of the central visions of the NPSD. The NPSD envisages skill development initiatives that will harness inclusivity and reduce divisions such as male/female, rural/urban, organized/unorganized employment and traditional/contemporary workplace.
- Definitely, these courses certainly add some 'weight' to ones **curriculum vitae**.

Benefits to Industry

Now a day most of industries are looking for candidates who can be directly recruited and who'll directly fit in to their production/day to day processes, without any hassles.

- More professional and employable **candidates are available** through these courses so recruiters, selection and training process become easier for industry. Companies can directly contact with these institutes for the requirements of candidates.
- **Reduced training cost:** As hired candidates are already have gained the practical experience or training for their job so it helps to reduce training cost.
- **Attrition cost will reduce:** The major problem faced by the employers is to retain the best brains with them to minimize the attrition rate. The new recruitment process leads to additional training and all together the cost of company increases. If the student is in advanced expose to such professional courses then he will certainly prove to be a boon to the company.
- **Retention cost will reduce:** As the coming employee s well versed with the professionalism and is aware of the industry

challenges the retention of employees is maintained in a better way.

- **Less operational problems and cost:** Such training programs provide ample scope of learning such courses which are directly used in day to day functioning by an employee in coming future. The new entrant is well equipped with all necessary gadgets and instruments he has to work on and with to smoothly fulfill the job requirements. Thereby decreasing the companies operational and other cost.
- **Self-motivated employees:** The employees being knowledgeable about all the working conditions and expected outcomes certainly becomes self-motivated to give their best performance for achieving organizational goals.
- **Fast learner:** These training programs provide sound background knowledge to the students which make them comfortable at workplace and they are more ready to learn from new experiences at job.
- **Develop a high-quality skilled workforce/entrepreneur relevant to current and emerging employment market needs:** The underlying principle of this program is to produce such people which are self-sufficient in making their own goals and accomplishing them which help them to take risk , start a new business provide employment to themselves and generate employment opportunities for other people as well.

Government Initiatives to introduce these programs

Government of India, Ministry of Labor & Employment launched a Modular Employable Skills (MES) under Skill Development Initiative (SDI) Scheme through Directorate General of Employment & Training in May 2007. Under this scheme, training to earlier school leavers and existing workers especially in a unorganized sector are to be trained for employable skills.

- Craft man training scheme
- Special Coaching Scheme for ST/SC
- Vocational rehabilitation Centers
- Woman Training
- Skill Development initiatives Scheme
- Apprenticeship Training Scheme

In these programs role of industry has been envisaged in every stage of design and implementation of the scheme. Industry bodies are represented in the Central Apex Committee and State Committees which would have overall responsibility of implementation of the scheme. Other roles are:

- Forecasting of emerging areas of employment at micro level.
- Development of course curricula of various trades.
- Development of instructional material for training.
- Assist in the training of trainers, wherever required.
- Making available their training & testing facilities, wherever required.
- Provide on the job training in their establishments.
- Development of assessment standards.
- Monitoring and Quality assurance.
- Assistance in placement of graduates.
- Provide trade experts to work as assessors of competencies.
- Voluntary donation of equipment to the ITIs / other training institutions.
- Providing guest faculty in new trades.

The National Policy on Skill Development was first formulated in 2009, and it has provided the framework for skill development activities in the country. The National Skill Development Policy, 2015 is being formulated, and it will super cede the Policy of 2009.

The overall vision of the policy is an integrated outcomes-based skills development eco-system, which would promote economic, and employment growth and social development through a focus on education, skill training and employment services. The Skill India Program is a commitment to the overall human resource development of the country.

Government of India is very serious about the skill India Mission and aims to develop around 400 million Indians technically skilled by the year 2022. NSDP (National Skill Development Program), a government of India initiative was created exclusively to promote this vision and KASE (Kerala Academy for Skills Excellence) under Kerala Government has taken the initiative for this endeavour.

Problems of Industry oriented programs

Every coin has two sides these programs are not exceptional of this. Along with lot many advantages there are some limitations of these programs which one has to consider while availing the facilities or giving the facilities. These are following:

1. **Less Attraction:** It is found that these programs are less attractive among the youth segments because it does not provide any Professional degree.
2. **High Cost:** Costs of these programs are higher due to limited

seats of candidates. Institutes have to provide more customized and specific services to all candidates. To fulfill this requirement the cost of institutes increases.

3. **Target segment:** Target segment for these courses are unemployed youth so it becomes difficult to motivate them to join these programs.
4. **High Expectation:** After joining and participating in these programs the expectation for lucrative packages of youth becomes very high. Especially when they are already having a professional degree.
5. **Feasibility:** Different candidates from different professional courses with different expectations to join for different companies make a challenge to its feasibility to conduct these kind of courses reason the institute should locate nearer to the company location where training is to be given otherwise it will increase the cost or will impact on effectively of the programs.
6. **People myth of being cheated:** Innovation or new beginning is always a challenge for an entrepreneur because night be possible people will not believe due to myth of being cheated.
7. **Tie up with 'n' no. of companies:** To make the programs successful it is highly required to tie up with lot many companies to provide the jobs to the candidates who have successfully completed the programs or training. It becomes the challenges for institute
 - To regular update the information regarding companies.
 - To offer new companies to every batch or every candidate.
 - To maintain good relationship with all companies with the objective of cost minimization.
 - To updates all candidates in their specific customized field .
8. Another problem in India is that students who have completed their courses from ITI and Polytechnics are not employable even after many years of the completion of their courses. In fact unemployment data shows that many of those enrolled with the department are educated unemployed. In this scenario, it is an essential requirement to upgrade or develop the skills of the technically qualified persons. They have to be made "Industry Ready". That is done by providing industry oriented practical training and creating awareness about the international standards in the industry etc.

Suggestions

There are some suggestions to make these programs more effective and successful:

1. Government/concern institutions should take initiation to publicize these programs.
2. These programs may provide 100% guarantee for job opportunity after successfully completion of program. It will help to develop the confidence as well as faith in the program.
3. These programs should be affiliated with university or government body.
4. Courses/ Syllabus of these programs should be designed by a committee in which along with members of institution, representatives of government, members from concern industry and professionals of concern area should be involved. That syllabus should be flexible enough to amend regular updates of the industry. Therefore it is essential to increase the industry-academia contact. This will assure regular supply of talent to the global talent workforce.
5. Duration of all these programs should be one year so that institute has enough time to provide proper training to candidate. Further, there should be long and sustainable plan to train our young graduates to raise their bar to attain jobs in the global talent market.
6. There is a strong need for awareness among the Indian graduates to know the employability skills required by the global talent market. It is necessary to update the curriculum at regular interval to cater the needs of the industry.
7. We know that the students with work experience have better awareness of the employability skills than the students with no work experience. Enhancing the skills and application of knowledge through specific training will enable the workers to perform their jobs in the best possible manner and that is the need of the hour.

Conclusion

Most foreign countries give special emphasis to classroom conducted practical learning or skill development along with theory classes, as part of primary school education. In India the education system in schools and colleges give emphasis to class room studies, which need to be changed. Traditional education and skill development should go side by side.

These job oriented courses have been changing the negative perception associated with vocational education and focusing on mobilization of candidates on the same: A major challenge in the skills arena is the mobilization of candidates, partly because of the socio-cultural attitude towards blue collared jobs. It is also evident that lack of awareness is a major reason for the relatively poor response to skill development opportunities. The skills

policy envisages awareness generation and information dissemination on the part of all the implementing agencies be it the Central Government, state government or the private agencies. A major initiative would be made in creating and raising awareness among the target groups about the benefit of skill development, employment and learning opportunities and also about support schemes that enable them to participate in training (Draft national policy on skill and Entrepreneurship).

No doubt that Industry oriented courses is a good way for candidate to improve the chances of convincing companies that one won't be a 'burden', that he/she will prove to be a valuable employee who will fit in directly without needing any training (Kallarackal, 2015).

There is also a distinct need of these oriented programs for creating awareness about international standards in the industry, candidates should also learn how to do their job punctually, safely and highly professionally in a high produce, zero defect level of workmanship.

In India there is a huge demand and scope for new training centers to comeup with an aim to provide soft skills training, language improvement, and presentation and communication skill development.

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To Study The Perception of Faculties Towards The Factors Affecting Teaching Competencies In Educational Sector

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Abstract

In all education system, the performance of teachers is one of the handful of factors determining school effectiveness and learning outcomes. But the performance of teachers and how well they teach depends on motivation, qualification, experience, training, aptitude and a mass of other factors, not the least of these being the environment and management structures within which they perform their role. There are number of factors that influence teacher performance. In order to work toward a solution, the first step is to identify those factors that have the greatest impact on morale levels, both negative and positive. An effort has been made in this research to identify the factors causing an impact on the teaching competencies. Various factors have been identified through various literature review. The research paper through primary survey tries to focus on the perception of faculties towards these factors and identify the crucial factors which affect the performance of teachers at a considerable level.

Key words: Factors affecting Teaching Competencies, Higher Education & Teaching Competencies

Introduction and Need for Study

In all education system, the performance of teachers is one of the handful of factors determining school effectiveness and learning outcomes. Naik (1998) explains that teaching is noble, but demanding occupation. In order for teachers to maintain a high level of professional performance under these conditions, they must assume personal responsibility for their own performance, growth and development. Mohanty (2000) explains teacher performance as the most crucial input in the field of education. Sarital and Tomer (2004) view teaching is one of the most influential profession in society. Teachers are the lifeblood of any educational system. Teachers are perhaps the most critical component of any system of education. How well they teach depends on motivation, qualification, experience, training, aptitude and a mass of other factors, not the least of these being the environment and management structures within which they perform their role. Teachers must be seen as part of the solution,

not part of the problem. Poor pay, low status and morale are key causes of poor performance and corrupt behavior in the public sector. Smith and Glenn, (1994) explains that internal factors have an impact on teachers feeling of success and a number of external forces can either aid or hinder a teachers success. There are number of factors that influence teacher performance. Increased duties and demands on time, low pay, and disruptive students have a significant impact on teachers' attitudes toward their jobs. In addition, lack of support from staff at all levels has an effect on teacher performance. Low pay and student conduct problems in the classroom are just a couple of issues that teachers face. Low morale among teachers is another very important problem that must be addressed if the problem of teacher shortages is going to change and ultimately improve. In order to work toward a solution, the first step is to identify those factors that have the greatest impact on morale levels, both negative and positive. A teacher worried about heavy teaching load and combined with frequent involvement in non-teaching tasks does not allow sufficient time for preparation for teaching. Lack of motivation over time converts into (a) absenteeism (b) little opportunities for career advancement in the teaching profession (c) low morale (d) job dissatisfaction (e) poor incentives (f) lack of teacher motivation (g) ineffective management information system (h) over crowded classes (i) inadequate teaching and learning material are also affecting their performance of female teachers. These few above mentioned and many other factors affects the performance of teachers.

There are many internal and external factors, which affects the performance of female teachers. Reasonable salary is one incentive to encourage teachers in any profession to work harder and in a more dedicated enthusiastic manner. Good pay helps them to concentrate on their jobs without worrying about how to make ends meet every month. But in the present scenario, pay does not favour the teacher. Teachers' salary packages are not adequate to minimum basic need for food, housing, clothing, education and transport. Mostly teachers are therefore worried and disinterested due to low salary and large numbers of teachers

have to go for part-time jobs to meet their basic needs. The other external factors are lack of gender justice, gender disparities/threat, posting at distant from their own houses, transport problem, political instability and undue political interference.

Literature Review

Dixit (1977) from his study entitled "A comparative study of job satisfaction among primary school teachers" found the effect of varying scores of feedback upon general teaching competencies of teacher trainees and found there was a positive relationship between socio-economic status and teaching competency. He also reported that creative male teachers were more competent in teaching. **Arora (1978)**, from her study "Difference between Effective and Ineffective Teachers", revealed the determinants of teacher effectiveness as (i) the age of the teacher when he/she enters the profession (ii) distance between school and living place (iii) degree of satisfaction derived from job and (iv) interest in in-service education. **Deshmukh Mann (1980)** conducted a study on "Some Correlates of success in Teaching of Secondary School Teachers". From his studies he reported that more competent teachers were significantly more expressive, ready to co-operate, bright and alert, efficient in abstract thinking, attentive to people, emotionally mature and realistic about life. **Mathew (1980)** conducted a study entitled "Factorial Structure of Teaching Competence among Secondary School Teachers". The aim of the study was to identify desirable teaching competencies of a physics teacher considering the presage, process and product variables of competency. Two approaches, factor analysis as well as content analysis involving student's view were used to identify desirable competencies. He arrived at fourteen general teaching competencies. Some of them are competency of teachers' concern for pupils, competency in using audio-visual aids, competency of professional perception, logical exposition, competency in classroom management, competency in giving assignment, competency in initiating pupil participation etc. **Rama (1980)** conducted a study on "Factorial Structure of Teaching Competencies among Secondary School Teachers". The aim of the study was to analyze the teaching competency of secondary school physics teachers of class IX. He reported the general teaching competency included competencies like competency in using audiovisual aids, competency in illustrating with numerous examples, competency in using variety of evaluation techniques, competency in evoking maximum involvement of students, competency in recognizing the attending behaviour, competency in achieving closure etc. **Mutha**

(1980) conducted a study entitled "An Attitudinal and Personality Study of Effective Teachers". His study revealed that sex, professional training, nature of schooling and income level was significantly associated with the teacher effectiveness. Similarly personality traits like anxiety, mental adjustment, extroversion, job satisfaction and teaching attitude were found to be predicting teacher effectiveness significantly. **Singh S. (1980)** conducted a study on "Relationship between Teachers Personality, teaching success and behavioral changes in students". From his studies he claimed that highly effective teachers possess better intellectual capacity, high creativity, ability to foster desirable attitudes in pupils and concern for development of school etc. **Bhagoliwal S (1982)** conducted a study entitled "A Study of Personality Characteristics associated with teaching effectiveness". The aim of the study was to find out the relationship between personality characteristics of teachers on their teaching effectiveness. He found that more effective teachers are characterized by a fairly high level of differentiation and integration in their cognitive and perceptual functioning. They had superior capacity for imagination and original thinking. **Sharma R.D. (1984)** conducted a study on "Student Teachers and Teaching Experiment in Education". From his study he found that mere academic qualification cannot be considered as the criteria, for success of a teacher. Effective teacher would go extraordinary lengths to understand their student and they put the relationship between teacher and students at the centre of effective teaching. **Chowdhary K (1985)** conducted a study "A factorial study of teaching competencies of teachers teaching English at the secondary school level". The study revealed (i) there is a positive correlation of all the competencies with product variables (ii) competencies were influenced by locality of the school and (iii) Educational qualification and sex were found to be related to teacher competencies.

Subbrayan (1985) conducted a study entitled "A Study of Relationship between Teacher Effectiveness, Research and Publication and Self Concept". The aim of the study was to identify the relationship between teaching effectiveness, research and publication and self concept and found that (i) Male and Female teachers did not differ significantly in respect of teaching effectiveness (ii) Teacher who had fifteen years or more of experience did not differ from those of less experienced in general factors of teaching effectiveness and (iii) Professors, readers and lecturers did not differ significantly from one another in respect of teaching effectiveness. **Prakasham (1986)** studied effectiveness as a function of school organizational climate and

teaching competency. In this study he observed that: (i) Teachers working in schools situated in urban areas were better than teachers of all other areas on both teaching competency as well as teacher effectiveness. (ii) No significant difference was found in the teacher competency and teacher effectiveness of the teachers working in the government and non-government schools in global term. (iii) No significant difference was observed between male and female teachers on the tests of teaching competency. **Padmanabhaiah (1986)** conducted a study on "Job Satisfaction and Teaching Effectiveness of Secondary School Teachers". He reported that the variables age, designation, job satisfaction and experience of teachers showed a great influence on teaching effectiveness. **Goyal J.C, Pandey and Damayanti (1987)** conducted a study on "General teaching competency and attitude of economics teachers teaching at higher secondary level". The major findings of their study are (i) Majority of teachers possess average or below average teaching competency where as the number of teachers who possess above average teaching competency is very low. (ii) The teaching competency of male and female teachers does not show any significant differences.

Idrisi (1987) from his study entitled "A Study of Teaching Efficacy of Teachers in relation to their Locality, Sex, Grade Experience and Level of Education" found that urban male teachers more effective than their rural counterparts. But in the case of female teachers no such dependence of efficiency on locality was observed. He also reported that highly qualified and averagely qualified teachers do not differ significantly in their teacher effectiveness. **Hill (1988)** conducted a study entitled "Beginning First Year Teachers' Perception of Characteristics of Effective Teaching". In the study he analyzed the characteristics of effective teaching. According to him effective teaching includes (i) warm and friendly relationship with students (ii) ability to break complex things down to pupils (iii) effectiveness to adopt new techniques and (iv) flexibility. **Webb and Ashton (1987)** conducted a survey on teacher efficacy and found the factors that act as a threat to teacher effectiveness. They are: (i) Excessive role demands (ii) Inadequate salaries. (iii) Uncertainty in job (iv) Lack of recognition and (v) Moral decline of teachers **Ferguson (1991)** in his journal article "Playing for public education: New evidence on how and why money matters", claims that factors like class size, social background of students etc can influence effective teaching. **Kumar S. (1991)**, researched on the topic "Teacher Effectiveness Among Different Group of Teachers in Relation with Personality Traits". He conducted the study in

different subjects of teachers like science, Arts and commerce. The study revealed that there was no significant relationship between teacher effectiveness and personality traits among all the different group of teachers. **Lopez, (1995)** studied the "Relationship between Teacher Effectiveness and Classroom Experience of Teachers". In his opinion, 6 to 7 years of classroom experience is required for the development of teaching skills and teacher attain maximum effectiveness after 18 to 19 years of teaching.

Babu and Shelvaraj (1997), from their research study on the topic "Teacher Effectiveness and Involvement in Teaching" reported that the sex and locality of higher secondary school teachers had no effect upon teacher effectiveness. Also they found that teachers with research degrees possessed greater effectiveness and competence. **Sooryamourhy (1999)**, conducted an empirical study on "Linkage between infrastructure of school and teacher performance". He found that (i) the availability of basic facilities promote teacher performance and student achievement and (ii) the poor economic and educational back ground of the students can influences the entire school process. Teacher effectiveness in relation to institutional and sociological aspect was the subject of research for many researchers. **Mohammad Nadeem , Musarrat Shaheen Rana, Abdul Hameed Lone, Saira Maqbool, Khansa Naz Dr. Akhtar Ali (2011)** conducted a study to identify and analyze the factors affecting the performance of female teachers in urban and rural areas of Bahawalpur (Southern Punjab). Being descriptive study, survey method was adopted for data collection to find out the factors. Poor socio-economic status of teachers affects the teacher's performance. Poor socio-economic condition of the area where school is situated decreases the teacher's motivation but society gives more respect to female teachers as compare to male teachers. Undue political interference also affects the teacher's performance. A positive relationship was found between most of the factors and the performance of female teachers. **Hamida Khatoun , Dr. Fareeda Azeem , Dr. Sajjad Hayat Akhtar (2011)** : The study investigated in to a descriptive research to critically review of the impact of different factors on teaching competencies at secondary level. Most of the families are in favor of female teacher's job. The result proves that females spare the time for domestic work due to half day job. The result proves that professional jealousy is everywhere and mostly it effects on their teaching competency.

Research Methodology

Objectives

- 1) To list out the factors affecting the Teaching Competencies
- 2) To find out the perception of Faculties towards the factors affecting Teaching Competencies
- 3) To find out the important factors affecting the Teaching Competencies
- 4) To suggest recommendations for improving effectiveness in

Methodology

Descriptive Research Design was used. 50 respondents (faculties teaching in post graduate and graduate institutions) were a part of the survey research. After thorough consideration of all the factors and various literatures review a list of various factors was prepared as questionnaire and administered to the respondents with a 5 point Likert scale.

Data Analysis and Interpretation

Table 1: Descriptive Statistics

Variables		Frequency	Total	Percentage
Type of Academic Institution	Graduate	25	50	50%
	Post Graduate	25		50%
Age group of respondents	20-30 years	31	50	62%
	31- 40 years	13		26%
	>40 years	6		12%
Gender of respondents	Male	15	50	30%
	Female	35		70%

(Source: Primary data)

Table 1 shows the statistics related to the type of respondents. It is seen that 62% of the respondent's i.e. maximum respondents are between the age group of 20-30 years who have chosen Teaching as a Career in the present scenario. Only 12% of the respondents are more than 40 years of age. The respondents from graduate and post graduate programs are 25 each. The respondents include 15 male faculties and 35 female faculties.

Table 2: Impact of Factors on Teaching Competencies

Variables	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Organizational Factors					
Attitude of Management towards goal achievement	3	26	2	15	4
	6%	52%	4%	30%	8%
Infrastructure facilities and resources	Nil	Nil	Nil	43	7
	Nil	Nil	Nil	86%	14%
Flexibility in the functioning	15	22	2	10	1
	30%	44%	4%	20%	2%
Training & Developmental Programs	2	12	Nil	33	3
	4%	24%	Nil	66%	6%
Performance Appraisal Process	Nil	8	2	40	Nil
	Nil	16%	4%	80%	Nil
Salary and wages	Nil	Nil	Nil	23	27
	Nil	Nil	Nil	46%	54%
Personal Factors					
Level of Acceptance of Responsibility	28	12	Nil	6	4
	56%	24%	Nil	12%	8%
Family and Personal Relationships	32	7	1	3	7
	64%	14%	2%	6%	14%

Gender	40	5	Nil	5	Nil
	80%	10%	Nil	10%	Nil
The extent and Willingness to Learn new methodologies	12	17	Nil	15	6
	24%	34%	Nil	30%	12%
Teaching Experience	3	5	Nil	31	11
	6%	10%	Nil	62%	22%
Age	1	23	Nil	17	9
	2%	46%	Nil	34%	18%
Educational Qualifications	7	19	2	16	6
	14%	38%	4%	32%	12%
Daily working hours	Nil	3	Nil	41	6
	Nil	6%	Nil	82%	12%
Work Environment	32	3	1	10	4
	64%	6%	2%	20%	8%
Knowledge, Skills and Attitude	Nil	Nil	Nil	46	4
	Nil	Nil	Nil	92%	8%
Interpersonal Relationships	3	18	Nil	28	1
	6%	36%	Nil	56%	2%
Distance of the institution and living place	20	14	5	5	6
	40%	28%	10%	10%	12%
The career choice of Teaching as a Profession	3	5	1	28	13
	6%	10%	2%	56%	26%
Job Related Factors					
Satisfaction from teaching job	2	3	Nil	35	10
	4%	6%	Nil	70%	20%
Amount of Workload	Nil	4	Nil	41	5
	Nil	8%	Nil	82%	10%
Type of Subjects allocated to the Individual	Nil	14	Nil	28	8
	Nil	28%	Nil	56%	16%
Feedback of students	7	8	Nil	23	12
	14%	16%	Nil	46%	24%
Job Position and Responsibility	27	12	Nil	10	1
	54%	24%	Nil	20%	2%
The quality of students	1	15	Nil	18	16
	2%	30%	Nil	36%	32%

(Source: Primary data)

Table 2 indicates the analysis carried out on different variables affecting the teaching competencies. The respondents have been collectively summarized in the table in three different Parameters. i.e. Organizational Factors, Personal Factors and Job Related Factors.

The findings are as follows

Organizational Factors

- 58% of the respondents are of the opinion that the Attitude of the Management is not a factor affecting the Competency of Teachers and 40% of the respondents are of the opinion that it affects. This result may be due to the respondents from different institutions and the working style of the management may be different.
- 100% of the respondents agree and highly agree that Infrastructure facilities and resources are a major factor in enhancing the

competencies of the faculties towards their teaching learning practices.

- Flexibility in the functioning is disagreed by nearly 74% of the respondents as a factor affecting the competencies.
- 72% of the respondents highly agree and agree that Training & Developmental Programs are a factor which affects the teaching competencies of the faculty members.
- 80% of the respondents agree that Performance Appraisal Process affects the teaching competencies while 16% do not feel so.
- 100% of the respondents agree and highly agree that Salary and wages are the factors affecting the teaching competencies of the faculties.

Personal Factors

- 80% of the respondents disagree and highly disagree that Level of Acceptance of Responsibility by individual is a factor affecting the Teaching competencies.
- Family and Personal Relationships are rated by 78% of the respondents as not so important factor affecting the teaching competencies.
- 90% of the respondents do not agree that Gender is a factor affecting the teaching competencies of an individual.
- The extent and Willingness to learn new methodologies is agreed and highly agreed as a factor by 42% of the respondents.
- Teaching Experience is approved as a factor by 84% of the respondents in the survey.
- 52% of the respondents feel that Age is a factor affecting the teaching competencies while rest of the respondents feels that it is not a factor.
- 44% of the respondents are of the opinion that Educational Qualifications is a very important factor affecting the teaching competencies.
- Daily working hours are being termed as important factor by 94% of the respondents.
- Work Environment is being considered not so important by 90% of the respondents.
- 100% of the respondents are of the opinion that Knowledge, Skills and Attitude
- 58% of the respondents feel that Interpersonal Relationships are a factor affecting the Teaching Competencies.

- Distance of the institution and living place is considered as a factor affecting the teaching competencies by 68% of the respondents.
- 82% of the respondents feel that the career choice of Teaching as a Profession is a big factor affecting the teaching competencies.

Job Related Factors

- Satisfaction from teaching job is identified as a factor affecting the teaching competencies by 90% of the respondents
- Amount of Workload is considered as a factor by 92% of the respondents.
- 72% of the respondents are of the opinion that type of Subjects allocated to the Individual affects the individual teaching competencies.
- 70% of the respondents consider that Feedback of students affects the teaching competencies.
- Job Position and Responsibility are not considered to be very important by 78% of the respondents.
- 68% of the respondents feel that the quality of students is an important factor affecting the teaching competencies.

Suggestions and Conclusions

It is evident from the research that Teaching competencies and factors affecting Teaching competencies form an integral part in the performance of students. The research survey results indicate that all the three factors taken here into consideration are important. Infrastructure facilities, Training and Development, Salary & Wages and Performance Appraisal process is considered as important variables affecting the teaching competencies under the Organizational Factors. Under the head of Personal Factors, Teaching Experiences, Daily working hours, Knowledge, Skill & Attitude and Career choice is determined as important factors affecting the teaching competencies. Satisfaction from Teaching job and Amount of workload is considered as most important factors affecting the teaching competencies by majority of the respondents under the head of Job Related Factors. Out of all the three main factors, Infrastructure facilities and resources, Knowledge, Skill & Attitude and Salary are most important factors affecting the Teaching Competencies.

Further study and analysis can be done on this study to help to understand the use of these competencies in the areas of Training and Development, Recruitment and Selection and Performance

Appraisal process.

Thus the study on identifying the factors affecting the Teaching competencies shall help the Institutions to create an Organizational Culture to ensure more productivity from the faculties. This step in turn shall be a highly contributing factor in the performance of students and success of Institution.

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An Empirical Study of Customer Perception Towards CRM Capabilities and Demographic Variables in Banking Sector

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Abstract

The aim of the study is to explore the significant difference between demographic variable groups on customer perception towards various Customer Relationship Management (CRM) capabilities in private banking sector. This structure has been tested using one-way ANOVA (f-test) and independent sample t-test to find out significant difference among the variables considered. The empirical study has been conducted with a well-structured questionnaire consisting of questions/items related to the various CRM capabilities in banking sector. The data has been collected randomly from 409 customers of a private bank in Jammu and Kashmir. The findings of the study illustrate that there are no significant mean differences in the perception of customers towards CRM capabilities across gender, income, age and education. It means that male and female customers; young and senior customers; high income and low income customer; different education background customers have same perception towards CRM capability dimensions i.e. service capability, product capability and personnel capability.

Keywords

Customer relationship management, service capability, product capability, personnel capability, customer perception.

Introduction

Services sector has now become a backbone for the economy of any country, as the service organizations contribute majorly to the Gross Domestic Product (GDP) and employment generation. Since 1990's there has been a tremendous growth in service industries in many countries (McDonalds and Leppard, 1990). In world economy services sector has the highest contribution of 67.5 percent towards the global GDP i.e. US\$70.2 trillion in 2011, as per UN National Account Statistics (Prasad et al., 2014). In India the services sector contributed 57 per cent to the GDP in 2014-15. This sector has made rapid growth in the past decade and has emerged as the largest and one of the fastest sectors of Indian economy. The services sector has not only dominated India's GDP, but has also engrossed considerable foreign

investment which has contributed significantly to exports and large-scale employment generation. India's services sector consists of wide variety of activities such as trade, hotel and restaurants, storage and communication, transport, financing, insurance, real estate, business services, community, social services, and services associated with construction (Economic Survey of India, 2015). Such a growth in services sector has resulted in higher competition among various service organizations thereby transforming the management and marketing of these organizations (Rootman et al., 2007). The competition among the service organizations has intensified since the dawn of 21st century. Under such competitive pressures it is imperative for service firms to impress and improve relationships with clients by identifying and satisfying their needs and preferences (Chung et al., 2007). Due to the advancement in information and communication technology, service firms can track their customers and determine their buying behaviour and usage of product. Such information can be used to develop active and accurate services for right customer through right channel at right time.

The concept of customer relationship management (CRM) has been emerged in United States during late 1990's. However, in early 1980's contact management had been existent to disperse all the information required for relationship management between customers and service organizations (Lin et al., 2006). It has been evolved as a part of relationship marketing which assists in delivering customer services and support during 1990's. CRM when applied with information technologies can provide integrated planning, value creation system, marketing information system and customer service delivery mechanism. As per Wangpaichitr (2006), relationship marketing involves sustaining long-term relationships with clients through the use of interactive databases and networking in order to retain valuable customers. These relationships are based on the mutual benefit and fulfillment. Every client (internal and external customer) has been considered as individual person or unit. Thus, CRM can develop loyal clients and a loyal client base is vital to service

organisations including banking institutions for survival. Employees also play a major role in the service delivery to clients and may influence the degree of CRM in service organisations. As the CRM paradigm is achieving more popularity in services sector, research into the difference of perception of various demographic groups of customers towards CRM remain limited (Lin et al., 2006; Rootman et al., 2007; Chung et al., 2007; Sivesan and Achchulthan, 2013; Saravanakumar and Kumar, 2013) despite of many studies which have revealed that CRM capabilities enhance company performance (Agrawal, 2004; Mithas et al., 2005). Due to complexity in CRM structure, the positive financial return rates of CRM related projects vary from 10 to 30 percent (Brewton and Schiemann, 2003; Krol, 2002). Therefore, it is important to identify and explore various CRM capabilities and demographic variables influencing the perception of customers towards CRM in banking sector.

Statement of Problem

Demographic variables form the base of segmentation in the modern services industry. The various demographic variables considered often for segmentation include gender, age, profession/occupation, income, education, geographical region, social class, religion etc. Reason being that customer needs, wants, preferences, usage rates of products and services are usually associated with demographic variables (Kotler and Keller, 2007). The growing competition among the various service firms has provoked the service organizations to consider the demographic variables while implementing the CRM strategy. Also the increasing competition for customization and personalization among the banks is diverting their attention towards the constant transformation of applications and offerings to meet new competition and changing customer preferences, expectations and needs (Joshi and Ahmad, 2013). Thus every firm should consider demographic factors to plan for better implementation of various CRM capabilities.

Due to the advent of political stability in the state of Jammu and Kashmir, the private sector banks have started penetrating the market by opening new branches in several places of the state. Meanwhile, these banks are facing difficulties in penetrating the market due to hyper competition from public sector banks and higher initial expenditure. These private sector banks have to identify the unique segments which are competition free and have to adopt blue ocean strategy to avoid competition. This can be possible only by considering demographic variable for identification of such unique segments. Further, less empirical literature is available regarding perception of customers towards

CRM capabilities and demographic variables in the banking sector. Thus a need is felt to initiate a study to find out the significant difference between demographic variables on customer perception towards CRM capabilities.

Objectives

The study has been carried out with the following objectives;

1. To investigate the significant difference between demographic variables on customer perception towards CRM capabilities.
2. To provide suggestions to the bank for proper implementation of CRM capabilities with reference to demographic variables.

Hypotheses Development

The academicians and practitioners in the field of business management have been giving much emphasis on 'managing customer relationship effectively' (Reinartz et al., 2004; Rahman and Azhar, 2008). Organizations are now in a continuous move from brand-centric to customer-centric approach (Xu et al., 2002; Verhoef et al., 2010). The customer-centric approach is possible only through relationship marketing (Feiz et al., 2011). Building and maintaining personal relationships with clients is one of the important functions of the service organizations, because loyalty is associated with the personal relationship development (Swartz and Lacobucci, 2000). Therefore, service providers including financial institutions should give more emphasis to the relationship development in order to achieve loyalty and long-term competitive advantage.

Terziovski and Dean (1998) have found that the significant predictors of quality performance in Australian service industry are proposition to service quality and continuous improvement in delivering customer satisfaction. Thus service firms have to continuously monitor their CRM processes, increase their customer orientation, develop customer-centric organizational culture and implement CRM technology to build and strengthen their CRM capabilities (Wang and Feng, 2012). Felin et al. (2012) opined that in the present volatile business environment service capabilities have occupied a prominent position in marketing research and play an important role in developing competitive advantage. The benefits of service capability include increased customer satisfaction, better customer retention, positive word of mouth, reduced staff turnover, decreased operating costs, increased market share, increased profitability and improved financial performance (Cronin et al., 2000; Kandampully and Suhartanto, 2000; Duncan and Elliott, 2002; Janda et al., 2002; Gounaris et al., 2003; Yoon and Suh, 2004).

Product capability plays a prominent role in managing cordial

relationships with customers. Product development capability can enhance quality, reduce development costs and enrich value, thereby contributing to the firm's reputation, market share and profitability (Gatignon and Xuereb, 1997; Koski and Kretschmer, 2010). Due to the high failure rate (95 percent) of the new products, managers need to have a candid configuration of organization capabilities (Hamel and Prahalad, 1994; Nobel, 2011). Such unique configurations has been very challenging for organizations operating in the emerging markets, as they have limited resources and market experience than their competitors in developed markets (Hitt *et al.*, 2005).

In the context of resource based view (RBV) of CRM, personnel capability: (1) enables firms to overcome the technical and business risks associated with the investment in CRM programs (Bharadwaj, 2000), (2) is based on accumulative experience developed during the period of time (Katz, 1974) and (3) results from a socially complex processes that requires investment in the cycle of learning and knowledge codification. This capability makes the firm more effective than their competitors (Mata *et al.* 1995). The knowledge based view (KBV) of CRM emphasizes that humans have got some unique abilities and with these abilities they can convert data into wisdom thereby creating competitive advantages that enhances firm's performance (Grant, 1996).

Uhl (1970) has found that individuals who have higher income are more innovative and more likely to adopt a new product, service or technology earlier than individuals with lower incomes. Homburg and Giering (2001) have opined that people with higher income make more information search prior to any purchasing decision. Koco (2001) has observed that senior respondents/customer make rational decisions based on their experience and wisdom. The aged customers are resistant to new technological and are less motivated to changes (Patrickson and Hartmann 1997). Zulkifli and Tahir (2012) have found that there is no significant difference in perception of customers towards CRM practices among various age groups, gender, education level and employment. The old age groups of customers have higher brand loyalty because of long held relationships with the brand of a company (Cole *et al.*, 2008). But the findings of some researchers are contradictory to this. They are of the opinion that the kind of experience and time of experience are influential factors of loyalty (Setlow, 2002; Chi *et al.*, 2009). According to Parthasarathy and Ramasamy (2015) educational level does not have any significant difference on the perception of customers towards CRM capabilities. Mokhlis and

Salleh (2009) have studied that cultural and demographic variables play a key role in customer decision-making, and have a significant impact on brand loyalties. Moosmayer and Fuljahn (2010) observed that while considering gender impact, women showed significantly higher score for consumer perception towards CRM campaign as compared to the male customers. Research studies have shown that women and men differ in their value, attitude, and role behaviours etc. With regard to consumer perceptions, pro-social behaviour seems particularly suitable for explaining differences in gender towards CRM campaigns (Berger *et al.*, 1999; Dahl and Lavack, 1995; Potter and Adam, 2005; Ross *et al.*, 1992).

Based on the above literature review following hypotheses have been formulated:

- H1: There is significant mean difference in customer perception towards CRM capabilities between male and female customers.
- H2: There is significant mean difference in customer perception towards CRM capabilities across average monthly income level.
- H3: There is significant difference in customer perception of CRM capabilities across the age level of the customers.
- H4: There is significant difference in customer perception of CRM capabilities across the education level of the customers.

Methodology

Sampling Design and Data Collection

The data has been collected through the questionnaire from the customers of the HDFC bank. The population of the study consists of the total number of branches of the bank operating in the Jammu and Kashmir. Cluster random sampling method was adopted and a sample 409 was drawn out of the customer population of the bank. The sample size has been determined by using the following sample size determination formula (Cochran, 1963)

$$SS = \frac{Z^2 p(1-p)}{e^2}$$

SS = Sample size

Z = given z value (1.96)

p = proportion of population (0.05 or 50%)

e = acceptable sampling error (± 0.05)

The survey has been conducted keeping into consideration that the customers selected should have an association with the bank for more than six months.

Sample Characteristics

The sample characteristics are being exhibited in Table I. As depicted in the table, 59.2 percent of customers are males and 40.8 percent are females. Also 56 percent of the customer fall in age group of 26-35 years, which means that bank is targeting the youth segment of society. 27.1 percent of customers fall in the income group of INR 20001-30000 and maximum customers are graduates followed by post-graduates as depicted in the table.

Instrument Development

The instrument/scale developed for the study comprises of two parts. The first part includes description of demographic variables such as age, income, education and gender. The second part deals with the CRM capabilities consisting of three dimensions i.e., service capability, personnel capability and product capability. These three dimensions comprising of 13 items have been taken from the existing scales developed by researchers. However, the wording of the items was modified to suit the banking sector. A five point likert scale has been used in all the three dimensions with ranks 5 (strongly agree) to 1 (strongly disagree). The reliability of the instrument has been determined by Cronbach's alpha.

Table 1: Demographic Description of Customers

Demographic	Category	Frequency	Percentage
Variables			
Gender	Male	242	59.2
	Female	167	40.8
Age(yrs)	16-25	20	4.9
	26-35	229	56
	36-45	120	29.3
	46-55	25	6.1
	56-65	7	1.7
	65 above	8	2
Education	10th	8	2
	12th	58	14.2
	Graduate	167	40.8
	Post-graduate	158	38.6
	M. Phil / Ph. D	18	4.4
Income (INR)	Below 10000	23	5.6
	10001 - 20000	106	25.9
	20001 - 30000	111	27.1
	30001 - 40000	86	21
	40001 - 50000	53	13
	50001 above	30	7.3

(Source: Primary data)

The reliability coefficient of the CRM capability dimensions were much higher than 0.60, the constructs were therefore deemed to have adequate reliability (Nunnally, 1978). The descriptive statistics of the variables and reliability estimates are shown in Table 2.

Data Analysis and Results

The data analysis was performed by employing various statistical techniques. Both descriptive and inferential statistics has been used for achieving the desired results. Descriptive statistics gives information through mean, standard deviation and variance. Inferential statistics is employed in testing the hypothesis and involves drawing in conclusion about the population based on the sample data. The

tests performed in this study include one-way ANOVA (f-test) and independent sample t-test (t-test).

Table 2: Descriptive Statistics of Scale Items

Service Capability (Sin et al., 2005; Malik, 2010; Yang, 2012)	Mean	SD	CA(α)
SC1. The bank provides comprehensive deposit policy to customer.	3.67	1.45	0.859
SC2. The bank has sound and centralized customer grievance redressal policy.	3.48	1.34	
SC3. The bank always provides assistance/guidance to customer.	3.54	1.38	
SC6. The bank's cheque collection policy is inconvenient to customer.	3.29	1.27	
Product Capability (Vijiyakumar, 2011; Yang, 2012; El Essawy, 2012)			
PC7. Bank's ATM facility is very good.	3.20	1.24	0.869
PC8. The bank has sufficient number of branches.	3.25	1.24	
PC9. Credit is easily availed in the bank.	3.22	1.22	
PC11. There is no shortage of cash in the bank.	3.34	1.28	
PC12. The bank provides locker facility.	3.26	1.30	
Personnel Capability (Sin et al., 2005; Ravichandran and Lertwongsatien, 2005; Song et al., 2005; Mendoza et al., 2007; Rahman and Azhar, 2008; Lin et al., 2010)			
PeC13. The bank has friendly and accommodative staff.	3.34	1.30	0.913
PeC14. Timely services are delivered by the bank staff.	3.39	1.30	
PeC15. The bank staff is co-operative and always willing to help.	3.34	1.28	
PeC16. Uniform guidelines are followed for every customer.	3.24	1.27	

Note: SD-standard deviation, CA-Cronbach's Alpha (Source: Primary data)

The Table 3 shows mean and standard deviation of the CRM capability dimensions. The table reveals that service capability has highest mean of 3.49 with standard deviation of 1.14 and product capability has lowest mean of 3.25 with standard deviation of 1.02.

Table 3: Descriptive Statistics of CRM Capability Dimensions

Dimensions	Minimum	Maximum	Mean	Std. Deviation
Service Capability	1	5	3.49	1.14
Product Capability	1	5	3.25	1.02
Personnel Capability	1	5	3.32	1.15

Independent sample t-test was utilized to find out the significant mean difference in the perception of customers towards CRM capabilities between male and female customers. The Table 4 shows the results of the t-test.

Table 4: t-test for Gender Groups on Variable of CRM Capabilities

t-test Variables	t-value	df	Sig. (2-tailed)	Mean Difference
CRM Capabilities	-0.288	407	0.774	-0.027

It is revealed from Table 4 that there is no significant mean difference in the perception of customers towards CRM capabilities between male and female customers. This leads to the rejection of the first hypothesis H1 that there is significant mean difference in customer perception towards CRM capabilities between male and female customers. Further, the one-way ANOVA was employed to find out the difference in the perception of customers towards CRM capabilities among age, income and education (Table V).

Table 5: One way ANOVA for different demographic groups on CRM capabilities

Age Group					
	Sum of Squares	df	Mean Square	F	Sig. (2-tailed)
Between Groups	4.84	5	0.970	1.148	0.334
Within Groups	340.46	403	0.845		
Total	345.30	408			

Income Group					
	Sum of Squares	df	Mean Square	F	Sig. (2-tailed)
Between Groups	2.81	5	0.563	0.662	0.653
Within Groups	342.49	403	0.850		
Total	345.30	408			
Education Group					
	Sum of Squares	df	Mean Square	F	Sig. (2-tailed)
Between Groups	1.10	4	0.275	0.323	0.863
Within Groups	344.20	404	0.852		
Total	345.30	408			

Based on the results given in Table 5 it is revealed that there is no significant difference between various groups i.e. age, income and education in customer perception towards CRM capabilities, because F is below the threshold and significance values is above the threshold. Thus all the other hypotheses are rejected as the Table 5 shows that significance value is above the threshold of 0.05 in all the three cases. The hypotheses results are shown in Table 6.

Table 6: Hypotheses Testing

S. No.	Hypotheses	Results	Tools
H1	There is significant mean difference in customer perception towards CRM capabilities between male and female customers.	Rejected	t-test
H2	There is significant mean difference in customer perception towards CRM capabilities across average monthly income level.	Rejected	f-test
H3	There is significant difference in customer perception of CRM capabilities across the age level of the customers.	Rejected	f-test
H4	There is significant difference in customer perception of CRM capabilities across the education level of the customers.	Rejected	f-test

Conclusion and Suggestions

The CRM capability dimensions identified by the study i.e. service capability, product capability and personnel capability have been least influenced by the personnel demographic variables of the customers. The personnel demographic variables considered in the study include gender, age, income and education. It has been depicted in the study that gender has no significant mean difference in customer perception towards CRM capabilities. The mean difference between the male and female customer in their response towards CRM capabilities is insignificant, which means that male and female customers have same level of perception toward the CRM capabilities. Thus the bank should not consider gender variable while formulating CRM strategy.

The study has revealed that the age of customer has no significant mean difference in perception towards CRM capabilities. The age of a customer does not influence his/her perception of CRM in a bank. All the age groups identified in the study have same level of perception towards the CRM in a bank. The mean difference in CRM perception between the age groups and within the age groups is insignificant. Income demographic variable also has no influence on the perception of customer towards CRM dimensions. The income groups have the same level of perception towards bank's CRM, being it a high income group or a low income group. Thus the bank should not consider income and age of customer during the implementation of CRM program.

It is finally ascertained from the study that educational qualification of customer does not influence the CRM theory of the bank. In other words, we can say that different educational levels of the customer have insignificant mean difference between and within the education groups. Thus educational groups of customer have same level of perception towards CRM capabilities of the bank in Jammu and Kashmir. The different demographic variables have least influence of the CRM capability dimensions because the people of the state are not much aware about the banking services offered by this bank.

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Factors Influencing Consumer Buying Decision Process For Different Products And Brands

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Abstract

The consumer buying decision process varies with different products and brands. For consumer products, brand associations, perceptions, images, experiences, beliefs, attitudes, brand image can influence consumer buying decisions. Also advertisements and emotional appeals can influence consumer buying decision process to a great extent. For industrial products, emotions do not play any role and the decision to purchase is more a rational decision based on functional values and prices. This decision is also a collective decision taken by a purchase committee. For the services sector, products and services, the consumer buying decision process is influenced by factors like product prices, services offered, timely delivery, use of technology, etc.

Key words

Consumer buying decision process, different products and brands, emotional value, functional value, brand image

Introduction

Consumption is the sole purpose of all production activities. Peter Drucker says, "It is the consumer who determines what the business is".⁴ A consumer is the one who does some physical activities and deliberates to take decisions concerning purchase based on his or evaluation of products and services. Consumer behavior reflects the totality of decisions with respect to acquisition, consumption and disposal of goods, services, time and ideas." When Montgomery stores used it to differentiate his mail order from other retailers, they said, "Satisfaction Guaranteed or money back". Commitment to customer satisfaction is the slogan of many companies now. Consumer behaviour is the key success of any company. There are various factors influencing consumer buying decision process for different products and brands. These factors are highlighted in this article.

Literature Review

As Kretter, Kadekova et al (2010) state, "Country of origin of food

and consumer preferences in segment of university students" consumers prefer attributes such as freshness, flavor and also price. Consumers prefer fruit juices because of their flavors and freshness. Gupta & Gupta (2008) "fruit drinks how healthy and safe" discussed that fruit drinks are popularly used in the most urban households today are flooded with a large variety of fruit juices, e.g.: mango, apple, guava, litchi. The main reason for increased consumption of fruit juice is the changing life styles and rising level of health consciousness among consumers and parents. They believe that these drinks provide superior nutrition because of their status and high beverage costs. Gupta (2003) studies Coke's and Pepsi's strategies designed to push sales of the soft drink giants. Coca-Cola and Pepsi have appointed thousands of new retailers in a drive into rural India that has pushed sales steeply.⁹

Some consumers distinguish the psychological aspect (brand associations like thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand) of a brand from the experiential aspect. The brand experience is a brand's action perceived by a consumer. The psychological aspect, sometimes referred to as the brand image, is a symbolic construct created within the minds of people, consisting of all the information and expectations associated with a product, service or the companies providing them.

Consumers may look at branding as an aspect of products or services, as it often serves to denote a certain attractive quality or characteristic and brand promise. From the perspective of brand owners, branded products or services can command higher prices. Where two products resemble each other, but one of the products has no associated branding (such as a generic, store-branded product), people may often select the more expensive branded product on the basis of the perceived quality of the brand or on the basis of the reputation of the brand owner.²

Products & Brands

Anything that satisfies the physical and psychological needs of consumers is a product. Products can be either consumer

products or industrial products. Consumer products are further classified into consumer durables and consumer non-durables. Any product that is used directly for consumption and no further processing is required is a consumer non-durable product. The basic distinction between consumer durable product and non-durable product is based on the life of that product. For example, FMCG products like toothpaste, soaps, shampoos, etc. fall into consumer non-durables, whereas products like fans, air-conditioners, washing machines, etc. are classified as consumer durable products. Industrial products can be classified as standard and tailor-made. Standard industrial products like pumps, motors, welding electrodes etc are mainly sold through a wide number of distributors and retailers. The tailor-made industrial products are sold directly and major part of demand is from Government and Original Equipment Manufacturers (OEMs). The demand can be either direct or derived demand in case of standard industrial products. For example, the demand for thermostats used in air conditioners will be derived from the commercial / residential/ industrial complexes built as well as for replacement of thermostats. The demand for cement will be derived from various construction activities. However, industrial tailor-made products like boilers, switchgears, etc the specifications are discussed with influencers like consultants and purchase decisions are finalized by bidding process. The purchase of such tailor- made products is generally from the lowest price bidder. In a competitive environment, companies need to create a brand, which is a logo, sign or symbol that identifies products and services from the other competitors. During the past two decades there is an emphasis on innovative products and brands for consumer products. Brands are built by functional values first and come up with either innovative designs or products with sleek looks, different flavors and shapes, different value propositions, different channels for distribution or direct marketing, advanced technology. Emotional bonding is created with consumers later on. So much so that they become brand loyal and refuse to accept any other brands afterwards.

Consumer Buying Decision Process

The buyer decision process consists of the following five stages

1. Need recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision
5. Post purchase behavior

The buying process starts long before the actual purchase and

continues long after. Marketers need to focus on the entire buying process and not on just the purchase decision.

Consumer Buying Decision Process Based on Product and Service Category

The requirement for a particular brand and service starts with a need recognition. Based on the need, the consumer starts searching for different information and alternatives. The consumer buying will also depend on the category of products that is consumer products or industrial product. For consumer products, the consumer buying decisions can be largely influenced by advertisements, peer group pressure, referrals or the convincing power of the salesman. The regulator and government policy also play an important role in the consumer buying process.

There is a case of Volkswagen car that suffered a great deal in terms of sales and customer confidence when the regulator in USA found that the pollution norms are violated by Volkswagen. They installed inferior software. In India, there is another case of regulator banning the FMCG brand *Maggi*, which is one of the favorite instant food brands among Indian consumers. It was a nightmare when in June 2015, the Uttar Pradesh Food Safety and Drug Administration found that *Maggi* samples tested contain an alarmingly high level of lead (MSG). The legal battle was finally won by Nestle. However, efforts are required by Nestle in winning consumers' trust. The company will have to re-launch the *Maggi* brand with a new marketing strategy.

There are different roles in the buying decision process right from initiator, influencer, decider, buyer and user. It can be observed that these various roles in the decision process vary with the types of products. For example, when buying FMCG products like soaps, toothpaste, etc. the initiator may be a housewife who is influenced by her children's or neighbor's opinion or influenced by a good advertisement while buying products. Decision to purchase a type of soap or toothpaste, hair oils, shampoo, etc. by the housewife can find multiple users for the same product as the taste and flavor will vary with different age groups in the same family. We, therefore, find different brands of products used in the same family. For consumer durable products, the decision to buy or not can be largely dependent on affordability. The other decision process can be somewhat similar to FMCG products. For example, children are emotionally attached to more expensive soaps whereas parents may prefer one that meets the functional values.

For industrial products, the initiator can be the end user who is

influenced by product features of a particular brand. One more step is seen in case of industrial products, that is, a gatekeeper. Gatekeeper may be an audit department or a quality control department who may raise objections to an expensive brand or ask for clarifications on quality standards. In a tender for procurement of high value items, the order must be placed with the lowest bidder only. To eliminate any personal interest, it is now made transparent by E-tendering. No items can be purchased directly. Decision to purchase a particular brand or not is a collective decision by purchase committee members. Purchase department has to get requirements for the end users. The buying process can start only after receiving indent from end user. Also, in a tender process all bidders are asked to submit separate technical and commercial bids. The commercial bid is opened only after the specifications of all bidders are matched. Table 1 shows factors influencing consumer buying decision process for different products and brands. This is based on the author's personal views.

Table 1

Sr. No.	Factors influencing consumer buying decision process	Outcome For Different Types Of Product Category		
		FMCG	Consumer Durables	Industrial
1	Emotional Appeal	Yes	Yes	No
2	Advertising of product and services	Aggressive	Moderate	Advertising in trade journals/magazines.
3	Celebrity endorsement in advertisements	Required	Moderately required	Hardly used. Focus is on technical features and functional benefits.
4	Trade Fairs	Moderate	Moderate	Aggressively used
5	Hoardings	Aggressively used. For example "Amul" hoardings	Aggressively used For example, Raymond's, Titan hoardings	Seldom used except for technically simpler products like welding electrodes, standard switch gear, motors, pumps etc which can be procured through local dealers
6	Sales Promotion	Major focus	Required	Required
7	Free Samples	Required to great extent	Not possible due to costs being higher	Not possible due to higher costs of the products. Product demonstrations are carried out.
8	Packaging	Play a major role.	Plays moderate role	Emphasis is on packing than packaging
9	Influence of Children and Women in Purchasing Decision Process	Very much present	Moderately present	Not present.
10	Decision Making	Impulsive and individualist and emotional.	Largely influenced by opinion of users, advertisements, sales promotions & sales persons convincing power	More rational & collective and emphasis on quality, price and technical standards. Collective decision taken by purchase committee unusually consist of purchase, production, accounts, R&D, top management
	Pricing policy	Prices are mostly uniform for all consumers	Prices remain almost same for all consumers	Dual pricing policy. For example, industrial products like thermostats, batteries, L.T. Switch gears and brake liners etc prices of OEMs are much less than dealers due to large assured purchases made by OEMs. However, for the prices of these products is much higher in the dealer market than OEMs.
11	Price Sensitivity	Great	Moderate	Less
12	Preciseness of Technical Specifications	Not precise	Moderately precise	Very precise
13	Technical Training of Sales Force	Not so much required. However training is required in developing selling skills and handling consumer and dealer queries.	Moderately required.	Required to a great extent.
14	Product Demonstration	May not be required	Moderately required	Required to a great extent

15	One to One Relationship Between Buyer And Seller (CRM)	Required to some extent.	Moderately required.	Very much required.
16	Product Approval by Consultant or End-User	Not required.	Modernly required for bulk purchase.	Required to a great extent
17	Purchase Policy	Less defined	Moderately defined	Very much defined
18	Post Sale Service	Seldom required	Moderately required	Required to great extent
19	After Sales Service	Hardly Required	Very much required	Required to a great extent
20	Specific Pricing Scheme for Original Equipment Manufacturers (OEMs) & Bulk Buyers	Only for Institutional / Govt. buying	Only for Institutional / Govt. buying	Very much present
21	Dealer Promotion	Very much required	Very much required	Useful to a great extent for standard products. For tailor-made products, it is direct sales.
22	Role of Social Media	Consumer feedback and product complaints to be viewed seriously.	Consumer feedback and product complaints to be viewed seriously.	Customers may directly contact sales and service team. Also, consultants' comments and approval plays a major role in customer satisfaction.
23	Global Presence	Required	Required	Required
24	Focus Technology for product innovations	Required	Required	Required
25	User friendly products	Required	Required	Required
26	Employee behavior	Employee behavior plays less He/she is not directly in contact with consumer.	Employee behavior plays moderate role	Employee behavior is the key to product success or failure.
27	Regulatory approval	Required	Required	Required

(Source: Author's own views)

Key value drivers and outcomes for different types of product categories

Here are some of the examples explaining how the consumer's decision process varies with the products and services category:

A. Consumer Products

1. Owning a good flat is a dream come true for most individuals. The biggest constraint for such a dream is affordability and availability of houses within the city area. With the RBI reducing bank lending rates by 50 basis points, it will be a dream come true for many people who aspire to own a house. This will also depend on the banks passing on this interest rate cut to customers. However, with husband and wife working, getting housing loan and combined with tax rebate has eased the financial pressures on couples aspiring to buy a dream house. In real estate markets, the decision processes of buying flats will also depend on location, individual budget, family size, reputation of the builder, types of amenities, loan facility, neighbors etc. The author feels that both functional and emotional values are attached while making the decision of buying a house. The present Honorable Prime Minister, Narendra Modi has a vision of a house for every family in India by 2022. With majority of Indian citizens living below the poverty line, affordability is a big concern. It is a big challenge for the government and private players to fulfill this ambitious dream. Public and private participation may solve the present problem to a great extent.

For buying a new car, the decision can be largely driven by functional values such as driving comfort, economy, fuel efficiency, shape, size, after sales service. The emotional values such as status, brand name are the overriding factors in the final purchase decision. Means of transportation was the need in the past has now changed to family status as well as the society in which we live. With the "Tata Nano" car there is a new target market of two wheeler owners switching over to the *Tata Nano* car due to affordability at the low budget end. With the present interest rate cut of 50 basis points by the RBI, many car buyers will buy a new car provided the banks pass on the rate cut to buyers. The regulator and government policy also play an important role in the consumer buying process. There is a case of the Volkswagen car that suffered a great deal in terms of sales and customer confidence when it was noticed that the regulator in USA found that the pollution norms are violated by Volkswagen. They had installed inferior software.

2. After globalization, privatization and liberalization, there has been an explosive growth in telecommunication in India. About two

decades back, no consumer would have imagined that he or she can own a mobile phone, as owning a mobile was a status symbol as incoming calls used to cost about Rs 16 per minute apart from the exorbitant price of mobile phone. Today mobile phones have become an integral part of every consumer's life. The explosive growth in telecom sector is due to the increased use of mobile services irrespective of age, income, social class, due to the affordability of handsets and very low call rates.

Presently the consumer can pick and choose among a wide variety of brands in the market place. There are various reasons for using mobile phones by consumers. A wide variety of value added services like ring tones, SMS, MMS, MP3 players, blue tooth, Whats'app, torch, games, etc. are offered by mobile operators. The mobile companies are luring customers with aggressive promotions; value added services and special discount schemes. It is now possible for low income consumers to own a mobile phone at least to meet the functional values like receiving incoming calls. With the smart phone market having grown exponentially, the consumers are socially connected and with more new applications being added on regular basis, the consumers will have more emotional connections with the brands. For example, the mobile consumers are eagerly waiting for the launch of Apple I 6 models. Moreover many apps are being developed to make the lives of poor consumers comfortable. Consumers can send their health records; farmers can know how to get maximum yields, students can learn online, money withdrawal and deposits at a click of a mouse, etc. with the new applications developed on mobile apps.

3. When you consider products such as gold and jewelry, the consumer buying behavior is largely influenced by fashion, style, design, occasions and whether it is for personal use or gifting to near and dear ones. The emotional attachments are more for gold and jewelry in India. This is the main reason consumers do not sell these products in the market unless they are in desperate need of money. The government wants to curb cash transactions while buying these products to curb black money conversion by consumers.
4. For one of the basic needs like food products, today the consumer buying decision is mainly driven by variety of brands and packaged and instant food. With the personal disposable income of the growing middle class going up with both husband and wife working, there is less time for cooking homely food and has resulted in either eating food in a

restaurant or fast food. The emotional factors are driven by even their children loving restaurant food more than homemade food. With the inflation in food items, for the lower class, it is difficult to imagine whether the functional value of satisfying the hunger is being met.

5. During the summer, there is a growing demand for soft drinks and ice cream for quenching thirst. The buying behavior is driven by taste, flavor and trendiness for such products and emotional value of choosing a particular brand is more prevalent. However, there is a constant awareness of putting on extra weight due to soft drink consumption and these consumers prefer low diet soft drink or fruit juices.
6. When it comes to clothing or readymade garments, the consumer behavior of upper and middle income groups is driven by fashion, style, fabric used and emotional attachment to well-known brands. However, with the steep rise in the present cost of living, one wonders how this basic need is met by lower income groups of consumers and they can hardly think of meeting the functional value. In such a case, emotional value of wearing well-known brands of readymade garments is a distant dream for them. With heavy discounts offered by many e-commerce companies, consumers are gradually shifting to online shopping and this has really hampered the sales of physical stores. However, there are some consumers who would like to go and enjoy shopping experience and touch and feel the products.
7. For wrist watches as a product, "Titan", has revolutionized the market through organized retailing, innovative designs, styles, wide range of wrist watches to cater to the needs of all the demographic segments and has created emotional bonding with the consumers. The consumers' most preferred brand even for gifting wrist watches is "Titan" in India. With Apple launching I 6, some consumers will shift to touch technology products.

B. Industrial products

For industrial products like purchase of, a low tension /high tension switch gears, transformers, capital equipments, electric motors, etc. the customer buying behavior is not as an individual decision, but is a collective decision of members from cross-functional areas like purchase, finance, R&D, quality control, top management, etc. The major emphasis is on the functional values like quality, meeting the specifications, post and after sales service rendered. The purchase policy is well defined and there is no emotional value attached to a particular brand.

However, if all the functional values of all competitors are the same then preference is given to a brand in use in case of repeat purchase. Decision making for procuring products from vendors in case of industrial product purchase is more rational and there is no impulsive behavior.

C. Service sector

For the services sector, products and services, the consumer behavior is driven by product prices, service offered, timely delivery, use of technology, etc.

Banking sector

With the *Jan Dhan Yojana* announced by Indian Prime Minister, which allows opening bank accounts with zero balance and less hassle for consumers below the poverty line. Indian Finance Minister, Mr. Arun Jaitley, declared that about 17 crore consumers had opened the *Jan Dhan Yojana* accounts and these consumers will get direct benefit of gas subsidy, which will be transferred directly to consumer's account. However, there are some bottom-line problems though like the availability of money for opening and maintaining minimum balance in *Jan Dhan Yojana*.

Post Purchase Behaviour

The consumers' can find out whether the decision of buying a particular product or service is correct or not by using these products and services. It is very useful; insights can be gathered by contacting customers after they have purchased the products. Many difficulties in use of the products can be solved by pre- and after-sales training of the customers. This also helps in getting repeat orders from the customers. If the customers' expectations are met, he or she is satisfied, emotional value is created and positive word of mouth is spread. If the customers' expectations are not met, it leads to consumer dissatisfaction and can create emotional detachment and a negative word of mouth is spread. Negative word of mouth is detrimental to the growth of the organization as it spreads much faster than positive word of mouth. It can be noted that if a consumer is satisfied he may spread positive word of mouth to a few consumers but if he is dissatisfied with the products and services, he will inform many consumers and caution them against using such products. With the consumers being very active on social media like Facebook, Twitter, etc., the customer complaints on product and services reach very fast to a large target market. The companies have to act very fast in resolving these complaints.

Conclusion

Buying decision of all products and services starts with a need.

The consumer starts searching for alternatives. Factors influencing the consumer buying decision process vary with different products and brands. For consumer products, the consumer behavior of buying a particular product or service is initially driven by functional values created by a company. To support its products and brands, the company has to also come out with different value propositions to create an emotional value in the long run. For industrial products, the customer buying behavior is a collective decision, which is more rational and can hardly have any emotional value. In the services sector, consumer behavior is driven by both functional and emotional values.

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Leadership Practices in NGOs: Issues of Accountability

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Abstract

Increasing prominence on Non-Government Organizations (NGOs) as one of the patrons of corporations has led to academics, social and environmental accounting scholars in particular, to call for research to be undertaken on the level of accountability of the NGOs themselves. This paper outlines the need for a different conceptualization of accountability for NGOs, use when calling for greater accountability of corporations, and demonstrates there already existing effective accountability mechanisms. A major flaw in the argument for greater NGO accountability is that it is usually presented from a perspective that ignores the conflict between control and the role that NGOs play in civil society - a role that provides a voice for those unable to speak for themselves, and counters the views of more powerful groups. NGOs play an important role in society and in the absence of motives for existence such as profit or power it is necessary to apply different criteria when judging their effectiveness.

Keywords: Accountability, leadership, NGOs, Regime.

Introduction

Corporations are being called upon to account for their actions that affect society and the natural environment more and more. At the forefront of many of these calls are various non-government organizations (NGOs) who demand that corporations provide information about their actions to the public arena. In turn, academics have called upon corporations to engage with NGOs in order to be more accountable. This increasing emphasis on NGOs as one of the stakeholders of corporations has recently led to academics and social and environmental accounting (SEA) scholars in particular, to call for research to be undertaken on the level of accountability of the NGOs themselves. Much of this literature calls for NGOs to be made more accountable than they are currently, and suggests that 'social accounting', the topic of a great deal of research in terms of corporations, might also be applied to NGOs. Despite the implication such calls suggest – that there has not been much research done on NGO accountability –

there has, in fact, been a number of books, reports, newspaper articles, special editions of journals, and an international comparative study published on the issue. These publications however, are almost exclusively from outside the accounting/business discipline, coming mainly from the not-for-profit and development studies literature, but also from sociology, political theory and law. This research will be reviewed in subsequent sections.

The main aim of this article is to attempt to counter two implications of the current call for more accountability of NGOs: First that the current level of accountability is insufficient; and second, that requiring corporations to be more accountable might be hypocritical without requiring the same accountability of NGOs. This paper does not suggest that NGOs should not be accountable however, but rather shows that NGOs are already accountable in a variety of ways. More importantly, it demonstrates the need for a different conceptualization of accountability for NGOs than the one used for the accountability of corporations.

Literature Review

A review of the literature on NGO accountability identifies a number of issues revealing it as a multifaceted and complex subject. The questions raised include to whom and how NGOs should be made accountable, what are the different types of accountability that exist and what sort of accountability mechanisms are appropriate.

In every organization and shared effort, competent leadership has always been considered vital and there have been research on leaders and leadership from time to time in various sectors (Arora, 2012). However, most attention is given to the visible and influential domains of leadership that form and direct society through the – often allied – powers of politics and of wealth creating businesses. The emerging domain of non-profit or civic leaders and leadership remains relatively unexplored and poorly understood (A F , 2000) .

Most of the research in business and politics has been done in the

developed countries without giving adequate attention to the social development leaders in the non-governmental sectors who do not aspire to political power, but work to improve the lives of the powerless in the society (A F., 2000). Unlike government or for profit sectors, NGOs have the distinctive mission of social change and they focus on the people who have not been brought under either the government or private sector programs. This mission and related characteristics create distinct management challenges for NGOs (J., 2000). Appropriate leadership is crucial to face these challenges. Like other organizations, NGOs go through various stages of growth and change. There has been very little research to analyse the role and characteristics of NGO leaders at different stages of the organization (Arora, 2012).

As development actors, NGOs have become the main service providers in countries where the government is unable to fulfill its traditional role. NGOs are increasingly involved in capacity development. As the development discourse leans towards developing skills and tools for strengthening society, NGOs have reacted accordingly. They wish first and foremost to remain important stakeholders in development and to impart their extensive knowledge in every sector possible. This involvement changes the ways in which NGOs operate (A F., 2000). Capacity-building activities complement traditional service provision, though this does not mean that all NGOs have good relations with government. In any case, NGO activities are increasingly diverse. They have an impact on the interpretation of capacity development. NGOs are influenced by the ideology of capacity development as defined by the hegemonic development discourse, but they also influence its meaning from the outside. This modified interpretation of capacity development can weaken central government but strengthen it in the long term (Arora, 2012).

NGOs have the capacity to innovate and adapt more quickly than national governments; therefore, their actions can undermine government initiatives. But if they scale up their activities and impart their knowledge and techniques at the government level, the country as a whole can benefit. NGOs have a significant impact on the whole process but are also plagued by severe obstacles. NGOs continue to suffer from a lack of resources and from their general estrangement from the state. Unless they become partners with government, and not competitors, capacity-building initiatives will continue to be stunted (J., 2000). Before diving straight into the resilience indicators, there is an important discussion within the literature on NGO leadership that should be noted. The conventional wisdom is that effective NGO

leadership in the non-profit and for-profit sectors are characterized by some fundamental differences. The basic assumptions behind this are that NGOs for-profits operate under different philosophies and in very different market spaces (Arora, 2012; Hailey, 2006; Hailey & James, 2004; Siddiqi, 2001).

However, few studies have tested this empirically and the few that have found at best only vary minor differences regarding what constitutes effective leadership across for-profit and non-profit sectors. (Hamlin, 2011) (Thach, 2007) Additionally, a number of the concepts used to theorize NGO leadership are ones that have been taken from literature on the for-profit sector (Burbach, 2010). Crichton, Ramsay, and Kelly suggest that lessons are frequently not learnt by organizations on both sides because of the tendency to not look across sectors (M.T. Crichton, 2009). On the other hand, McMurray, *et.al.* argue that it is inappropriate to assume findings translate across sectors. While worth nothing, these findings are far from conclusive and not the main focus of this review. However, they do suggest that this area has potentially been taken for granted. It certainly warrants revisiting. (A.J. McMurray, 2010)

Call for Accountability

The pressure for NGOs to be made accountable is quite often accompanied by some form of questioning of the legitimacy and credibility of NGOs. The criticism has predominantly come from those affected by NGO actions, including multi-national corporations, governments and international organizations. In India and Australia governments are scrutinizing NGO activity and there is "a corporate funded think-tank is proposing a system of accreditation for non-government organizations". NGO disclosure and fund-raising laws are often disparaged as being "vague and not enforced". A report by SustainAbility suggests that accountability is vital for international NGOs and a 2004 press report suggests that "millions of groups are (not) subjected to meaningful oversight" (Times of India Christensen, 2004, p.1). Even some NGOs themselves have joined others in expressing the need for and importance of, accountability but some voices also speak of the dangers of increased accountability requirements and these will be outlined later. When it comes to whom NGOs owe accountability, there is a list of the usual suspects, including donors, members, the poor and disadvantaged, and society itself.

When considering mechanisms for ensuring accountability, the most obvious is to ensure that NGOs are transparent as full disclosure about their activities will enhance public trust. A major report was undertaken in 2003 on the accountability of

international NGOs that investigated access to online information and information on member control of governance for NGOs, inter-governmental organizations (IGOs) and transnational corporations (TNCs). The report concluded that international NGOs provide little online information about their activities compared with other organizations. In particular, the section of the report focusing on access to online information measured accountability by looking for the public accessibility of certain attributes in their reporting; as summarized in Table 1 below.

Table 1 : Accountability Report

	Access to Operational Information –Ethical Practice
1	Description of targets objectives and activities
2	Evaluations of main activities
3	Identification of key members of the organization
4	Number of votes each member holds
5	Description of decision making bodies
6	Identification of individuals on executive body
7	Agendas, draft papers and minutes
8	Disclosure policy
9	Annual reports that are audited
10	Information in other languages

(Source: The Indian Accountability Report)

This type of accountability mechanism however, is based on the assumption that accountability is the same for any type of organization. The Global Accountability Report (Kovach, et al., 2003b) itself makes direct comparisons between NGOs and corporations. This assumes we can treat NGOs in the same way that we treat companies, an argument which has a number of flaws. Not least is the proposition that NGOs have quite a different role to play in society as will be discussed later, but it should also be noted that companies themselves seek to avoid accountability where possible, and have often been shown to have weak accountability mechanisms (The Economist, 1994;). One only has to consider the spate of recent corporate collapses for examples of significant accounting requirements but little accountability.

Types of Accountability

A number of authors consider it important to distinguish between internal and external accountability of NGOs. Internal accountability, to members or boards, is often directly contrasted to the accountability of states to their electorate, highlighting the problem that members have little ability to effectively monitor or influence the actions of the NGO as voters do with governments. On the other hand, competition between NGOs serves as an accountability mechanism as it is easy for members to transfer

their membership at relatively little cost. An NGO's reputation amongst both its members and its peers is also seen as an important type of accountability. Limitations in funding and weak levels of influence mean that in order to be effective, NGOs must cooperate with each other in networks and earn the trust and respect of their peers.

Finally, NGOs are considered to have a moral obligation to act in the public interest and are accountable for what they say and the positions they take on particular issues, thus they must be accountable for the values they promote: "It is what it does, and not representation, that makes an NGO legitimate". These issues are considered in more detail later in the paper, when examples of how NGOs are currently held accountable are provided.

Problems in Accountability

A major theme to emerge from the literature in this area is that there are limitless problems inherent in trying to determine if and how NGOs should be held accountable. The varieties of NGOs that exist in terms of size, issues and power (Ginsburg, 1998; Hudson, 2000). For grassroots organizations it is easier to determine to whom they are accountable – those with an interest in the single issue. For international 'macro' groups however, it is much less clear.

Just as there is a variety of different types of NGOs, the claims made upon NGOs are not "coherently aligned with one another" either, as NGOs have a variety of stakeholders (Brown & Moore, 2001, p.574). Ebrahim (2003, p.814) argues that NGOs face the competing demands from these multiple stakeholders "more acutely and regularly than do private firms". The issue of multiple stakeholders, while at best making accountability more complex (Leat, 1988), can be additionally problematic because such competing demands can actually lead to poorer performance – satisfying clients and donors can sometimes be in conflict with the organization's long term goals (Brown & Moore, 2001).

Problems also arise through the difficulty in evaluating and measuring what NGOs do given the sometimes very specific nature of work done by single issue organizations. NGOs are often considered a major component of global civil society, and the term is often used to describe NGOs. Keane describes global civil society as including "individuals, households, profit-seeking businesses, not-for-profit non-governmental organisations, coalitions, social movements and linguistic communities and cultural identities.

Finally, the effect of making NGOs accountable on their ability to contribute to society, particularly as a 'dissenting voice' to

counterbalance government and corporate actions, is extremely important (Edwards, 2003). Leat (1988, p.7) describes this problem:

The voluntary sector is valued for its independence and flexibility; because it is valued it becomes more central; because it is more central it must be made more accountable; but how is greater accountability to be achieved without damaging independence and flexibility?

It is this point that this paper considers paramount to any discussion of whether NGOs' current level of accountability is sufficient. Before any questions about NGO accountability can really be addressed however, it is necessary to first consider the role of NGOs in our society. This issue is therefore the subject of the next section.

Conclusion

In conclusion, as indicated at the outset, this paper does not suggest that NGOs should not be accountable. It does suggest that the case may have been overstated, and that the focus of the research undertaken to date is too contracted, as "the heterogeneity of global civil society, (and NGOs) works against enforced unity" (Keane, 2003, p.15). The "mercantile tradition of accountability long has its roots in western capitalism but has now been challenged by progressive business people, NGOs and others who demand that corporate accountability become deeper and broader". While there has been much written about the 'problem' of NGO accountability, and the difficulties faced such as the lack of obvious means for holding, civil society accountable, such claims are easily and frequently exaggerated. Further still, NGOs are now called upon to do more with less, to act as catalysts for rapid change, and to foster sustained improvement in intransigent problems of sustainable development, economic justice, and political democratization around the world

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A Causal Relationship Between Exchange Rate, Trade, FDI And Economic Growth : Post Reform Period In India

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Abstract

The study attempts to examine causal relationship between exchange rate, trade, FDI and economic growth in India for post reform period. The annual times-series data ranging from 1992 to 2013 were consider for the study. This paper employs Unit-root testing, Co-integration and Granger Causality test to identify the relationship among the variable. The result of Co-integration test suggests long-run relationship between exchange rate, trade, FDI and economic growth in India after post reform period. Granger causality test result suggest unidirectional causality running from economic growth to exchange rate, trade, FDI in India during post-reform period.

Key Words : Exchange rate, Trade, FDI (Foreign direct investment), Economic Growth, Unit-root test, Co-integration test, Causality test.

Introduction

There are different factors which affects Economic growth. Exchange rate volatility is one of the determining factors which alters trade and in return affects growth. The exchange rate is define as, "the price of one currency with respect to another currency." Economic growth is captured by measuring capacity of country to produce goods and services, compared from present year to past year.

FDI is also one of the factors which promotes growth of the country. In developing countries, FDI enhance trade which leads to growth of the nation. India Consider to be one the fastest growing economy in the world. It has been ranked among the top 3 attractive investment destination. Since, 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor friendly. FDI brings modernized technology which leads to improvement in the productivity of people and also generates employment opportunities.

The report of Reserve Bank of India on FDI indicates decreased in FDI from 3793 USD Million in February 2015 to 2706 USD Million in March 2015. The average FDI in India from 1995 to 2015 was USD 1063.34 Million. The highest FDI was received in February

2008 stood USD 5670 Million and the lowest was USD -60 Million in February 2014.

Since the economic liberalization of 1991, India's GDP has been growing at a higher rate. The real growth rate in India was 5.5% in year 1999 which increased to 6.2% in 2004 and 7.2% in 2011. The growth in India fell in 2014 due to wider fiscal and current account deficits which raise imbalances in various macroeconomic variables. There was a sharp depreciation of the rupee due to capital shift from India due as condition of western countries improved. However, in early 2014, reduction in current account deficit and expectation of post-election economic reforms attracts inbound capital flows and stabilization of the rupee.

In view of the above discussion, this paper investigated causal relationship between exchange rate, trade, FDI and Economic growth in India during post reform period using annual data ranging from 1992 to 2013, using Unit-root test, Johnsen co-integration approach and Granger causality test.

The rest of the paper is organized as: Section 2 provides literature review, Section 3 offers discussion on data and methodology followed by result and discussion in Section 4. The paper ends with concluding remarks.

Literature Review

G. Jayachandran & A. Seilan (2010) examined causal relationship between trade, FDI and economic growth for India over the period of 1970-2007. The co-integration approach used by the author revealed that there is a long run relationship, Granger causality test suggest causal relationship between trade, FDI and economic growth. The direction of causality is from export to growth rate and FDI to growth rate. No reciprocal causality relationship exists between the variables.

The impact of foreign direct investment on economic growth in India was examined by R. Sarbapriya using co-integration approach for the period, 1990-91 to 2010-11. The result of the Ordinary least square method suggests the positive relationship between FDI and GDP. The Johnsen co-integration test suggest

existence of long run relationship, and Granger causality test confirmed the presence of unidirectional causality from economic growth to foreign direct investment.

The study made by M. Azeem Nasser investigated a causal relationship between trade, FDI, exchange rate and economic growth of Pakistan during 1980 to 2012. The result suggest existence of long-run relationship between the variable studied. The ECM results indicates significant relationship between the variables. Export causes growth and economic growth affects inflow of FDI found from granger causality test.

S. Bibi, S.Tauqeerahmad & H. Rashid investigated the impact of trade openness, FDI, exchange rate, and Inflation on economic growth of Pakistan using annual time series data for the period of 1980-2011. Long run relationship among the variable identified by co-integration test. FDI and trade are important determinant of economic growth of Pakistan.

The impact of exchange rate on trade and GDP for India was examined by G. Jayachandran for the period of 1970-2011 using annual time series data. The results of the study reveals that real export and imports are co-integrated with exchange rate volatility, real exchange rate, gross domestic product and foreign economic activity. The GDP has a positive impact on real export in long-run but not in short run.

The export lead growth hypothesis for India was tested by N.C. Pradhan using annual time series data for the period of 1970-71 to 2009-10 using unit-root stationarity test, co-integration test and granger causality test. The result suggest long run relationship between export and GDP. Granger causality test suggest unidirectional causality running from export growth to GDP growth.

Research Design

Sample and Study period

The time-series data on merchandise export, merchandise imports, exchange rate, FDI(foreign direct investment), economic growth as measure of GDP have been collected from world bank (<https://www.worldbank.org>) for the period between 1992-2013.

Table 1: Definition of Variables

Variable	Definition
Log of Merchandise Export (LNME)	It show the f.o.b. (Free on board) value of goods provided to the rest of the world valued in current U.S. dollars".

Log of Merchandise Import (LNMI)	It shows the c.i.f. (Cost, insurance and freight) value of goods received from the rest of the world valued in current U.S. dollars".
Log of Official Exchange rate (LNEX)	It refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units relative to the U.S. dollar)".
Log of Foreign Direct Investment (LNFDI)	It refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital.
Log of Gross Domestic Product (LNGDP)	It is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

(Source: World trade organization, International Monetary fund, World Bank)

All data are expressed in natural log in order to include multiply effect of time series and are symbolized with the letter 'Ln' preceding each variable name.

Methodology

The study tries to analyze long run relationship between exchange rate, trade, FDI and Economic growth during post reform period in India. The preliminary study require stationarity testing to confirm stationary properties of variables. The augmented dickey fuller test is used to test stationarity. If the variables under study are non-stationary, there will be possibility of spurious regression results. In the next step, Johnsen co-integration method used to examine long-run relationship between exchange rate, trade, FDI and Economic growth. The study then moved to test causality using Granger causality test to investigate direction of causality between the variables.

Unit root test

The augmented Dicky fuller test has been employed to investigate stationary and non-stationary properties of variables. If the variables are non -stationary, they may have stochastics or deterministic trend. The order of integration of selected variable were examined using Augmented Dicky fuller test.

The ADF test is based on following regression model,

$$\Delta y_t = \beta_0 + \beta_1 t + \beta_2 y_{t-1} + \sum_{i=1}^p \alpha_i \Delta y_{t-i} + \mu_t$$

Where μ_t is the pure white noise error term $\Delta y_{t-1} = y_{t-1} - y_{t-1+1}$ express the first difference with P lags. The coefficients β_0, β_1, α are being estimated.

If the coefficients is significantly different from zero (less than zero) then the hypothesis that y contains unit root is rejected. The hypothesis are:

$H_0 = \beta = 0$, the time series is non-stationary, there is a unit root.

$H_1 = \beta \neq 0$, the time series is stationary, there is no unit-root.

Co-integration test

The co-integration test is employed to investigate long-run relationship between exchange rate, trade, FDI and economic growth. The methodology developed by Johnsen and Juselius are deployed. Co-integration assumes the presence of common non-stationary process underlying the input time series variables. The test is based on maximum likelihood method of Johnsen (1979) suggest trace test and maximum eigen value test statistics to determine co-integration rank.

The trace test and maximum eigen value test are two forms of Johansen test. The presence of co-integration hypothesis are addressed by this form but with different approach.

Trace Test

The hypothesis are:

$$H_0 : K = K_0$$

$$H_1 : K > K_0$$

Here, the trace test examines whether the number of linear combination (K) is equal to given value (K_0) and the alternative hypothesis is whether number of linear combinations (K) is greater than given value (K_0)

Maximum Eigen value Test

The hypothesis are:

$$H_0 : K = K_0$$

$$H_1 : K = K_0 + 1$$

Here, Null Hypothesis indicates that there is only one possible combination of non-stationary variables to yield a stationary process. If we have more than one non-stationary variable, the test may be less powerful.

Granger Causality test

The direction of causality was examined by employing Granger causality test suggested by C.W.J. Granger (1969). By using the past value of X, if our prediction of current value of a time series Y improves, we can say that series X Granger cause time series Y.

This can be tested by running regression of Y on past value of Y and X.

H_0 : There is no causal relation between exchange rate, trade, FDI and economic growth.

H_1 : There is causality between exchange rate, trade, FDI and economic growth.

Result and Discussion

Table 2: Unit-Root Estimation

ADF test at level			ADF test at 1 st Difference		
Variable	Trend & Intercept	P-Value	Variable	Trend & Intercept	P-Value
LNEX	2.355501	0.3894	D(LNEX)	-3.961162	0.0284
LNFDI	-2.313567	0.4094	D(LNFDI)	-3.953046	0.0288
LNME	-1.768375	0.6834	D(LNME)	-4.345252	0.0032
LNMI	-1.938846	0.5992	D(LNMI)	-3.811053	0.0377
LNGDP	-1.887481	0.6252	D(LNGDP)	-4.04780	0.0240

From Table 2, it can be observed that all variables are non-stationary at level but become stationary at 5% significant level when converted to 1st difference.

The result above lend credence to the use of Co-integration test for investigation of the long-run relationship among the variables in our study.

In order to determine the significant lag values, the researcher has used five different criteria. The results are presented in Table 3.

Table 3: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	44.22966	NA	1.64e-08	-3.736158	-3.487463	-3.682185
1	159.9526	165.3185*	3.15e-12*	-12.37644*	-10.88427*	-12.05260*

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

The result presented indicates that lag order 1 is significant. Using the selected lag order, the result of co-integration test were obtained and presented in Table 4.

Table 4: Johnsen's Co-integration Test result

Unrestricted Co-integration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	Critical Value 0.05	Prob.**
None *	0.917437	103.0069	60.06141	0.0000
At most 1 *	0.838120	53.12308	40.17493	0.0016

At most 2	0.403838	16.70502	24.27596	0.3306
At most 3	0.271591	6.360172	12.32090	0.3935
At most 4	0.001115	0.022320	4.129906	0.9028
Trace test indicates 2 co-integrating eqn.(s) at the 0.05 level				
Unrestricted Co-integration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	Critical Value 0.05	Prob.**
None *	0.917437	49.88382	30.43961	0.0001
At most 1 *	0.838120	36.41806	24.15921	0.0007
At most 2	0.403838	10.34484	17.79730	0.4496
At most 3	0.271591	6.337852	11.22480	0.3129
At most 4	0.001115	0.022320	4.129906	0.9028
Max-eigenvalue test indicates 2 co-integrating eqn. (s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

It can be seen that for the Null hypothesis of no co-integration ($R=0$) among the variables in the model, the Trace test statistics is 103.0069 which is above 1% and 5% critical values as shown from the reported probability values. Thus, we reject the null hypothesis of $R \leq 0$. Similarly, $R=1$, the Trace test is obtained at 53.12308 which is above 1% and 5% critical values, the rejecting null hypothesis $R \leq 1$. It is therefore concluded that there are co-integrating relationships among exchange rate, merchandise export, merchandise import, FDI and economic growth. Maximum Likelihood test result also suggested Co-integrating relationship among the variable studied.

Thus, it can be concluded that, there is long-run relationship between exchange rate, trade, FDI and Economic growth in India during post-reform period.

The next phase involves testing of causality between exchange rate, trade, FDI and Economic growth. To ascertain the direction of causality, Pairwise Granger causality test was used. The result of this test are presented in Table 5.

Table 5: Pairwise Granger Causality Test Result

Null Hypothesis:	Lag 1		Lag 2		Lag 3	
	F - Statistic	Prob.	F - Statistic	Prob.	F - Statistic	Prob.
LNGDP does not Granger Cause LNEX	2.49765	0.1314	9.05245	0.0026*	9.28872	0.0019*
LNEX does not Granger Cause LNGDP	1.74710	0.2028	1.19234	0.3307	2.26826	0.1328
LNGDP does not Granger Cause LNFDI	3.62387	0.0731***	6.62758	0.0087*	3.87581	0.0378**
LNFDI does not Granger Cause LNGDP	2.54834	0.1278	0.50147	0.6154	0.99477	0.4284
LNGDP does not Granger Cause LNME	8.85875	0.0081*	12.4487	0.0007*	14.8729	0.0002*

LNME does not Granger Cause LNGDP	1.08079	0.3123	1.93326	0.1791	1.89820	0.1838
LNGDP does not Granger Cause LNMI	10.5159	0.0045*	18.3880	0.00009*	18.2298	0.00009*
LNMI does not Granger Cause LNGDP	0.31286	0.5828	1.90732	0.1828	1.15545	0.3669
Note: * denotes statistically significant at 1%, ** denotes statistically significant at 5%, *** denotes statistically significant at 10%.						

The result in Table 5 indicates unidirectional causality between Economic growth and exchange rate at lag 2 and 3. The unidirectional causality also running from GDP to Foreign direct investment at all lag levels. It is also found that unidirectional causality running from GDP to merchandise export and merchandise Imports. So it can be concluded that, the growth of the country determines exchange rate, FDI and trade in India during post reform period.

Conclusion

The paper investigated the causal relationship between Exchange rate, trade, FDI and Economic growth of India during post reform period. The empirical findings of Johansen co-integration test suggest that there is long term relationship between exchange rate, trade, FDI and economic growth in India. The pairwise granger causality test results indicates that in India, there is a unidirectional causality running from GDP to exchange rate, trade and FDI.

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Carbon Market- A Road Map Ahead

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Abstract

Under the Kyoto Protocol, only developed countries, known as Annexure I countries, were asked to undertake legally binding emission cuts. The crucial difference between the new and earlier negotiations is that all countries will now have to accept emissions cuts which would have 'legal force', a euphemism for legally binding emission cuts. Thus, China and India, which have so far resisted legally binding emission cuts for themselves and have only accepted voluntary emissions cuts, may be compelled to take legally binding emissions cuts, even if the per capita emissions of the country are much below than the developed countries. CDM projects are implemented globally under Kyoto Protocol to reduce greenhouse gases emission and Global warming by UNFCCC. India is second most potential country to implement CDM projects. The country needs to scan CDM projects as CDM is a market based mechanism under Kyoto Protocol which allows trading of carbon as commodity. There are certain problems faced in Kyoto Protocol Phase I. The paper describes history of the Kyoto protocol Phase I, Indian Scenario, and observation from Kyoto Protocol phase I output. It also covers the outline of Kyoto Protocol Phase II including Indian scenario.

Keywords

Kyoto Protocol, Indian Economy, CDM projects

Introduction

In 1997, the governments participating in the United Nations Framework Convention on Climate Change (UNFCCC) agreed on the Kyoto Protocol. The Protocol works on the principle of common but differentiated responsibilities between developed and developing countries. Industrialized countries agreed to legally binding targets for their emissions of a basket of six greenhouse gases in the commitment period 2008-2012. Due to complicated negotiations after the failure of the Copenhagen conference in 2009, only the Doha conference in 2012 managed to agree on a second commitment period of the Kyoto Protocol covering 2013 – 2020.

The Kyoto Protocol Phase I

In 1992 at the Rio Earth Summit nations from around the world met and agreed to voluntarily reduce greenhouse gas (GHG) emissions benchmarking 1990 levels. The Rio Treaty was not legally binding and because reducing emissions would likely cause great economic damage; many nations would not meet the goal. Representatives from around the world met again in December of 1997 at a conference in Kyoto to sign a revised agreement. The negotiators agreed to legally binding, internationally enforceable limits on the emission of greenhouse gases as a key principle of the treaty. By 2012 the industrialized countries would be obliged to cut their GHG emissions by an average of 5% relative to their base-year emissions in 1990. At the global level, countries around the world have expressed a firm commitment to strengthening international responses to the risks of climate change. India has the potential to generate at least 500 million carbon credits, which amounts to about 3 billion USD.

Mechanism for GHG emissions

With the ratification by Russia, the Kyoto Protocol has entered into force from 16th February 2005. Although, the Protocol to basically combat six greenhouse gas emissions, which was negotiated in Kyoto, Japan in December 1997, during the third Conference of Parties of UNFCCC (which was agreed at the Earth Summit at Rio-de-Janeiro in 1992); its implementation got delayed for more than 7 years, because there were difficulties in obtaining the necessary number of ratification from the countries, who accounted for 55% of carbon dioxide equivalent emissions of 1990 level. Now 141 countries of the world have ratified the Protocol, although a few major greenhouse-gas (GHG) emitting countries have not. India, along with most of the European Countries and many other developing countries, has ratified the protocol; although USA and Australia have not. The Kyoto Protocol has brought out three mechanisms for GHG emission abatement. They are:

- **Joint Implementation (JI)**

It allows countries to claim credit for emission reduction that arise

from investment in other industrialized countries, which result in a transfer of 'emission reduction units' between countries.

• Clean Development Mechanism (CDM)

Through this, industrialized countries can finance mitigation projects in developing countries contributing to their sustainable development.

• International Emissions Trading (IET)

It permits countries to transfer part of their 'allowed emissions' - assigned amount units.

All these mechanisms are market-based. The first two are project based, where as the third one allows the developed countries to sell surplus emission of one country to another developed country.

Clean Development Mechanism

All these mechanisms are market-based ones; the first two are project based, where as the third one allows the developed countries to sell surplus emission of one country to another developed country. Clean Development Mechanism (CDM) provides trading of Green House Gases (GHG) reductions that is measured in terms of Certified Emission Reductions (CERs) where each CER is equal to one metric ton of Carbon dioxide equivalent (CO_{2e}). Trading of CERs can take place between those countries who have agreed emissions reductions targets under UNFCCC (Annex-1 countries) and those who have not yet agreed to emission reductions targets (Non Annex countries). Out of the 3 Kyoto mechanisms, CDM is the only one meant for the developing world which encourages cleaner development in developing countries and brings infusion of investments and technologies in developing countries; which thus provides them an opportunity to adopt cleaner technologies and be paid for emission reductions. CDM undergoes through a project cycle involving 4 stages:

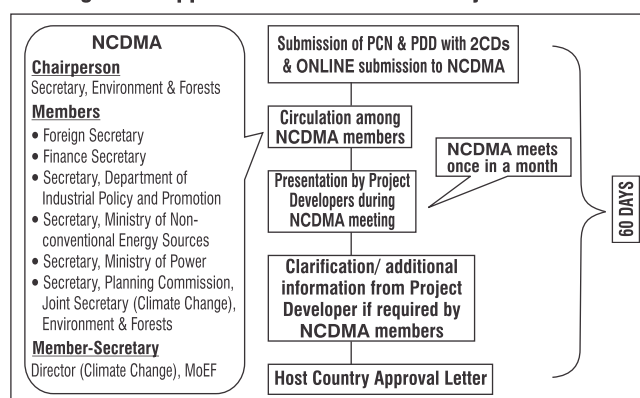
- (1) Project Development
- (2) Validation and Registration
- (3) Project Monitoring
- (4) Verification, Certification and Issuance of Certified Emission Reductions (CERs)

India and Kyoto Protocol Phase I

The Clean Development Mechanism (CDM) under the Kyoto Protocol has played a significant role in supporting Greenhouse Gas (GHG) emission reduction projects in India. India has the second largest number of registered CDM projects under the

Kyoto Protocol. India's CDM journey is nothing less than remarkable. India played a key role in facilitating the development of CDM projects through a proactive National CDM Authority (NCDMA). The Ministry of Environment & Forest is the nodal agency for CDM projects in India. Thus for any CDM project introduced in India, NOC from SPCB and the permission of the MoEF is required. The majority of registered CDM projects in India belong to the energy industries (solar, bio-mass, wind, hydro, fuel switch, supply side energy efficiency) which contribute about 70% of the estimated CER potential (based on annual CER estimates in the PDDs). Renewable energy projects alone contribute about 50% of the estimated CER potential. Gujarat leads the Indian states in terms of investment into CDM projects.

Figure 1: Approval Process of CDM Projects in India



(Source: IISD, 2009)

Observation and discussion

There are certain areas that are identified from the Kyoto protocol Phase I. The stark reality is that CO₂ emission reduction obligations for the first commitment period of the Kyoto Protocol, which ends in 2012, have been breached by Annexure I countries with impunity. Their emissions have increased and not reduced by five per cent from the 1990 level as was agreed to in the Kyoto Protocol. It is doubtful whether meaningful emissions reductions will emerge during the second commitment period of the Kyoto Protocol that is 2013-2017 and it can be extended up to 2020.

• Carbon Emission Targets

Carbon footprint of each nation (including imports and excluding exports), the progress made under Kyoto looks extremely poor, with Europe's savings reduced to just 1% from 1990 to 2008 and the developed world as a whole seeing its emissions rise by 7% in the same period. It shows that the concept has not taken seriously.

• Registrations Process

For the registration of CDM Project, the organization needs to go

through the process and that process requires more paper work and its time consuming.

- **Classification of Nations**

Kyoto Protocol has classified the nations into two broad categories Annexure I and Annexure II. Some of the countries argued that the classification of the nations is not proper, that will be the reason for discontinuation of the some countries in Kyoto Protocol Phase II.

- **Carbon Pricing**

There was initial rush for registration of CDM Project and get carbon credit, but it was only when number of applications from India were turned down and facing problem, the mindset of Indian companies has changed dramatically. Earlier, they were not even prepared to sell their carbon credit at 15 Euros, and now they have given open mandates to sell whenever the price comes to 4 Euros.

- **Economic Downturn**

The global financial crisis and the resulting economic slowdown may be assumed to have at least the benefit of also reducing environmental degradation in the individual countries. There are some short-term benefits to the global environment from the economic slowdown. Such benefits include reduction in the rate of air and water pollution from reduced energy use - which has direct implications for the urban poor's health.

- **Technology Transfer**

Developed world started to limit emission of Greenhouse Gases, but the question can be whether the current structure of CDM provides sufficient incentives for technology transfer.

The Kyoto Protocol Phase II

While climate change treaty negotiations are making dismally slow progress, CO₂ emissions are increasing at a rapid rate. According to Global Carbon Project (GCP), a forum of scientists, greenhouse gases registered an increase of 5.9 per cent in 2010, the fastest annual increase ever recorded. Furthermore, there has been a net increase of 49 per cent in CO₂ emissions from the 1990 levels. These are alarming statistics. If emissions continue to increase at this rate the tipping point of 2° C above the pre-industrial levels may be crossed sooner than later. The lack of urgency shown at Durban is, therefore, disappointing.

The Doha outcomes have offered mixed success and failure for India. New Delhi had argued for a meaningful and comprehensive outcome in the Kyoto Protocol and implementation of Long-term Cooperative Action (LCA) tracks. However, several key concerns

of India have been implicitly and explicitly incorporated in the discussions at Doha meetings. India successfully brought the Intellectual Property Rights matter into the climate change discourse. The second commitment for emissions reduction under the Kyoto Protocol is elusive, but developing countries including India have no binding obligation to reduce emissions by 2020. India is of the view that clean technology should be declared as 'global public goods', available to developing countries for free or affordable cost. The Doha Climate Platform launched at the Doha conference neither offers hope for adequate sources of climate finance nor technology transfer. India also advocated that the principle of equity is the mainstay of global climate change regime, and categorically stated that any tinkering with the term 'equity' would not be acceptable to it. However, the sole international agreement to cut greenhouse gas emissions has been severely weakened. Canada withdrew from the treaty while Japan and Russia said they would not commit themselves beyond 2012. Canada is one of the major polluters. Its withdrawal has been justified on the ground that the Kyoto Protocol covers only 30 per cent of global emissions and leaves out the world's two largest emitters – China and US. The Canadian decision delivers a major blow to the cause of the fight against global warming. According to Canada's Environment Minister, the cost to the Canadian economy of meeting the targets under Kyoto for 2012 would have been “the equivalent of the transfer of \$14bn (£8.7bn) from Canadian taxpayers to other countries.” Canada's obligation under the Kyoto Protocol was to reduce its emissions by six per cent by 2012 on 1990 levels; in reality, its emissions have gone up by about a third. The United States remains aloof, while emerging economies like Brazil, China and India are exempt. That leaves 34 industrialized countries—Australia, New Zealand and European nations—who have agreed a second commitment period of the Kyoto Protocol from January 1, 2013. Significantly, they will represent just 15 percent of global man-made CO₂ emissions. In the 1990s, Kyoto Protocol countries accounted for 33 percent of world CO₂ emissions. Kyoto countries will also have to decide this year whether the Protocol's second phase should last until 2017 or until 2020—the longer the timeframe, the easier it is to hit targets, or just postpone action.

India has been active as a part of the BASIC (Brazil, South Africa, India, and China) grouping, which has been insisting on equity and Common but Differentiated Responsibility (CBDR). BASIC is a powerful group of countries but is seen with suspicion by many. It will come under pressure from groups like AOSIS and Cartagena Dialogue in future. To conclude, despite there being no

significant changes or major breakthrough in international negotiations on climate change to address the environmental and development challenges, people's awareness of the environmental challenges has been rising slowly across the world and countries are taking initiatives to address these challenges. There is a need for comprehensive and coordinated efforts at the global level for an effective and meaningful transition towards a low-carbon economy. The international community should adopt clean technologies, improve energy efficiency, and turn to more sustainable sources of energy and modes of production and consumption without the economic growth. Unchecked climate change could radically alter the prospects for growth and development in some of the poorest countries. Millennium Development Goals for 2015 are unlikely to be achieved in many regions of the world.

Conclusion and future scope of research

Climate change can pose serious implications for the long-term 'sustainability of development progress in the developing countries. This underlines the urgency of strong and early action to reduce GHG emissions. In Kyoto Protocol Phase I the fact that the developing countries are so far behind the advanced industrialised countries in energy consumption per capita suggests that more widespread adoption of energy-saving techniques would be needed to prevent a significant increase in world-wide energy consumption and CO₂ emissions. With around 17 percent of world population, one of fastest growing economies of the world and the world's fourth largest emitter of greenhouse gases, India has become a crucial player in the climate change negotiations. Climate change issue underpins almost all aspects of economy and society and has been intrinsically connected with global trade, security, technology transfer, energy etc. India should enhance its diplomatic activities with countries who share common concerns. Successful adaptation finely tuned with mitigation holds the key for inclusive development and economic progress in the country. The study does not cover any kind of primary data. It is purely extract information and it identifies some of the points that need to be focused for Kyoto Protocol phase II. It can be concluded that there is still opportunity to increase the market share and many aspects of the concept can be covered in future research.

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Study of MSME Policies of the Central and select State Governments

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Abstract

This paper considers the policies of the Government of India with regard to promoting the growth of the MSME sector in the country and includes a brief review of the MSME Development Act 2006. In an effort to ascertain how MSMEs are being supported at the state level, the policies and programmes of three state governments viz., **Gujarat, Maharashtra, Bihar** is considered. The state of Gujarat is a leading state in Industrialisation and the comparison is with neighbouring Maharashtra which has the financial capital of the country. Bihar is considered as a state with rich natural resources and has immense potential to attract industrial investment and improve the socio-economic status of its citizens.

Keywords: MSME, Economy, Policies, Gujarat, Maharashtra, Bihar

Overview of the MSME Sector

The noted economist, Sir Mahalonobis rightly said that MSMEs are the growth engine for developing economies. Across various countries, MSMEs comprise over 90% of various enterprises and brings vibrancy to the economy and produces a variety of products and services to meet the demands of customers.

India is no exception to this trend, the contribution of MSMEs to the overall economy of our country can be seen in the following facts:

- 40% of gross industrial value-addition
- 45% of total exports from India (direct & indirect) – with the thrust on exports, this sector exports both traditional items as handicrafts, gems and jewellery; commodities as metals, agro products and marine products to the high value added items as machinery capital goods and components
- 2nd largest employer of human resources after agriculture. The government has increasingly emphasized on inclusive growth to ensure that if the Indian economy is to develop, all citizens should have a role and benefit from this growth
- Low capital intensive and high labour absorption and it is

estimated that an amount as low as Rs.100,000/- investment in fixed assets in the MSME sector generates employment for 4 persons.

- Employment generation capacity per unit of capital is about 8 times higher than large industries - SSIs in Gujarat's contribution to employment is 7.6%
- Rs. 1 million- invested in fixed assets produces Rs. 4.62 million worth of goods or services
- Use of traditional skills and knowledge as well as infusion of technologies, capital and innovative marketing practices makes this sector uniquely poised to meet the needs of the diverse Indian market. It is rightly been considered the vanguard of innovative products, services and processes.
- Being small gives it the advantage of flexibility in operations.
- By their very nature, they are widely dispersed and located in many remote and even somewhat inaccessible areas of our country.
- Manufacturing of consumer goods of mass consumption making them available in plenty serves as a non-inflationary force.
- Output generating capacity per unit of capital is three times larger than that of large industries.
- Wealth generator - combined output accrues roughly to about 7% of country's GDP.

MSMEs therefore play an important role in India's national plans and socioeconomic development by expanding the focus from just economic growth to inclusive growth. The higher output-capital ratio and employment-capital ratio has become a stabilising force in the Indian economy.

Policies supporting MSMEs

Considering the important role of this sector, it becomes imperative for governments, be it central, state or local, to protect, support and promote their growth. Some of the promotional measures which are important for the survival and

growth of this sector include:

- institutional support in respect of credit facilities
- provision of developed sites for construction of sheds
- provision of training facilities including entrepreneurial skills
- supply of machinery on hire-purchase terms
- assistance for domestic marketing & exports
- infrastructure facilities, cluster development
- special incentive for setting up enterprises in backward areas
- technical consultancy & financial assistance for technological up-gradation

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The MSMED Act was passed with the aim to promote and facilitate the development of small and medium enterprises in the country. The MSMEs definition in the Act relates to all enterprises engaged in production of goods pertaining to any manufacture or industry specified in first schedule. It is based on investment in plant and machinery or equipment.

Table 1: MSMEs defined

Scale/ Investment	Investment in Plant & machinery (Rs.) Manufacturing Sector	Investment in equipment (Rs.) Service Sector
Micro	< 25 lacs	< 10 lacs
Small	>25 lacs & < 5 cr	> 10 lacs & < 2 cr
Medium	>5 cr & < 10 cr	> 2 crores & < 5 cr

(Source: MSME Annual Report, 2014-15)

One of the important provisions of the said act is to provide protection to MSMEs to ensure that they receive timely payments by customers who are large companies to ensure that they are able to ensure proper financial viability in their operations. Account receivables has been one of the biggest bottlenecks in the functioning of MSMEs and seriously affects their operations. As per the Act, it is necessary for large companies and Public Sector Enterprises to specify unpaid amount with interest in the annual statement of accounts and interest not to be allowed as deduction from Income Tax Act, 1961. Further, the Ministry of Company Affairs Notification states that "Requirement to specify unpaid amount with interest in the annual statement of accounts" vide No: G.S.R.719 (E) dated 16 November 2007, thereby effecting suitable alterations in Schedule VI of the Companies Act, 1956 to incorporate implementation of Section 22 and Section 23 of the Act.

Important support for MSME Development

- LLPs (Limited Liability Partnerships) -facilitate infusion of equity & venture capital
- In line with the Policy Package for Stepping up Credit to the sector, Reserve Bank of India guidelines to Public Sector banks to ensure 20 per cent year-on-year growth in credit to the MSMEs.
- Small Industries Development Bank of India (SIDBI) to scale up /strengthen its credit operations for micro enterprises - cover 50 lakh additional beneficiaries over five years and Government of India provides grants to SIDBI to augment SIDBI's Portfolio Risk Fund.
- Extending the time limit for payment of excise duty.
- Technology & Quality Up-gradation Support for Training-cum Product Development Centres (TPDCs) for agro & food processing industries.
- MSME Development Institutes - facilitate promotion & development of micro & small enterprises in the food-processing sector.
- Public Procurement policy – Central govt. /PSUs aim to procure 20% of their requirements from MSME within 3 years beginning 2012.
- Two existing Central Footwear Training Institutes (CFTIs) (at Chennai and Agra) further strengthened to expand their outreach and assist the MSE in upgrading technology.
- Vertical Shaft Brick Kiln (VSBK) Technology promoted for adoption by MSEs engaged in Manufacturing bricks to make them energy efficient and eco-friendly with a one-time capital subsidy (limited to 30 per cent of the cost or Rs.2 lakh, whichever is less).
- Promoting energy efficiency in electrical pumps and motors manufactured by MSEs, special programme of assistance launched.
- Assisting attainment of ISO 9000 & 14001 standards.
- Technology Mission to assist MSMEs in technology up-gradation, energy conservation & pollution mitigation.
- Design Clinic - expertise to Manufacturing Sector -Enabling manufacturing sector to be competitive through quality management standards and quality technology tools.
- Building Awareness on Intellectual Property Rights.
- 65 BSDPs (Business Skill Development Programmes) conducted through selected Business schools, Technical

Institutions and trained 2052 entrepreneurs.

- National Programme on Application of Lean Manufacturing: The Scheme for implementation of Lean Manufacturing Programme in 100 Mini clusters under Public private partnership (PPP) Mode during financial year 2008-09, with budget provision of Rs.35 crores National Manufacturing Competitiveness programme and the Make In India Campaign.

Support for entrepreneurial & managerial development of SMEs through incubators Important schemes

- Prime Minister's Employment Generation Programme (PMEGP)
- Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE)
- Micro Finance Programme
- Credit Linked Capital Subsidy Scheme for Technology Up-gradation (CLCSS)
- Trade Related Entrepreneurship Assistance & Development (TREAD) Scheme for Women
- Rajiv Gandhi Udyami Mitra Yojana (RGUMY) - discontinued from august 2015 but Udyami Helpline Cell continues

Institutions to promote the MSME Sector

1. National Small Industries Corporation (NSIC) plays an important role in providing hire purchase and leasing of equipment and assists small enterprises to improve the quality of end products through creation of testing facilities. NSIC- STP Complex under Software Technology Parks of India (STPI).
2. Technology Dissemination Centres to provide latest information in connection with the technology up-gradation / dissemination and realising the vast potential of software exports it has created facilities for promotion of small scale
3. Khadi and Village industries Commission (KVIC) - statutory body established by an Act of Parliament (No. 61 of 1956, as amended by act no. 12 of 1987 and Act No.10 of 2006 with the:
 - social objective of providing employment
 - economic objective of producing saleable articles
 - wider objective of creating self-reliance amongst the poor and building up of a strong rural community spirit
4. Nodal MSME DI Providing Technical Consultancy to Existing and prospective entrepreneurs provides support in

publicizing the Public Procurement Policy and facilitating due share of the sector in procurements by Government Departments & PSUs . It further helps in liaisoning with R.B.I. for Monitoring Credit Flow to MSE Sector. It has helped to popularize schemes as Credit Link Capital Subsidy Scheme and CGTMSE. This organisation also organises suitable training programmes / events as Vendor Development programmes

5. Skill development for Educated unemployed youth – Some exclusively for SC/ST, Women, handicapped.
6. Export Promotion
7. Awards to MSMEs
8. Nodal agency for incentives/re-imbursements

The upcoming sections shall cover the highlights of the three State government initiatives viz. Gujarat, Maharashtra and Bihar.

Gujarat

As per the figures given by the Industries Commissioner, Government of Gujarat (2009), 2.3 lakh working MSMEs employed 12.9 lakh persons. Of this, 81% were situated in urban areas and 19% in the rural areas.

The state has, through its many initiatives as the Vibrant Gujarat Global Investors Summit, sought to promote itself as a globally competitive innovative industrial destination. The focus is to stimulate sustainable development and inclusive growth. Its primary mission is to proactively support the development of MSMEs, value addition on local primary sources and to increase the share of manufacturing in the State GDP. A Task force recommended forming new assistance schemes for MSME sector to strengthen and make them globally competitive. Various state government initiatives for support to this sector include:

- Expansion and diversification with investment of more than 60% of its gross fixed capital investment in Plant & Machinery - only one expansion eligible during operative period of the scheme
- Modernization / adoption of new technology/ production process/ improvement of product quality with investment of more than 25% of its gross fixed capital investment in Plant & machinery

Schemes include support for the following initiatives

- Capital investment subsidy – in Municipal Corporation limits 10% of amount disbursed by banks/FIs up-to a maximum of Rs. 15 lacs. In areas other than Municipal Corporation the support is 15% subject to a maximum of 25 lacs.

- Investment subsidy - 5% max 25 lacs for Municipal Corporation limits and 7% subject to maximum of 30 lacs for other areas.
- 1% extra for SC/ST, Physically challenged, women, youth below 35 yrs of age.
- MSME units with innovative Technology are provided assistance by Gujarat Venture Finance Limited (GVFL) to raise promoter's contribution to the extent of 20% of the project cost subject to a maximum of Rs.50 lacs.
- Centre for Entrepreneurship Development (CED) for training of new entrepreneurs.
- GVFL assists to formulize project and preparation of project report. It also helps apprise the project and extend support for obtaining loans from the bank/ financial institutions.
- 50% of capital cost for installing ERP, obtaining certifications etc.
- Technology Acquisition
- Assistance for Patent Registration
- Saving in Consumption of Water & energy
- Rehabilitation of Sick Enterprises

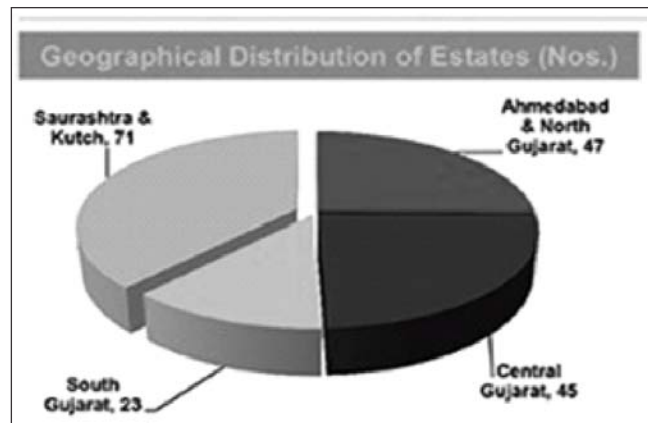
Gujarat Industrial Development Corporation (GIDC)

Availability of world class infrastructure is a pre-requisite for the functioning of an industrial enterprise, more so in the case of MSMEs who are dependent on public infrastructure for doing business.

The corporation was set up under the Gujarat Industrial Development Act of 1962, with a goal of accelerating industrialization in the state and creating industrial estates with infrastructure such as roads, drainage, electricity, water supply, street lights, and ready-to-occupy factory sheds. It has also set up infrastructure in certain estates for specific industries, e.g. electronics estate Gandhinagar, ceramics estates Bhavnagar, automobile estate in Sanand, Auto and Engineering and ancillary hub at Maswad Industrial Estate and chemical estates Vapi, Ankleshwar, Panoli, Nandesari.

Currently there are 262 GIDC Estates, 57 approved SEZs, 21 registered Industrial Parks and 83 Industrial Clusters. Under the Gujarat SIR (Special Investment Region) Act 2009, a Petroleum, Chemicals and Petrochemical Investment Region (PCPIR) has been set up at Dahej. Figure 1 indicates the distribution of GIDC estates in the state.

Figure 1 indicates the distribution of GIDC estates in the state.



(Source: gidc.gov.in)

Maharashtra

Maharashtra has a widely varied industrial landscape ranging from the industrial belt of Pune and Konkan to the sparsely industrialised belt of Marathwada. It houses the financial capital of the country – Mumbai, which has also to a large extent helped in attracting industrial investments in the state. The Industrial Investment and Infrastructure Policy 2013 of the state government covers the support extended to different levels of industries.

Maharashtra's share in the total Indian exports comprises 27%. The Directorate of Industries in 2012-13 indicated that while the State export is Rs. 1,74,011 cr all India figure stands at Rs. 6,44,486 cr. The main products exported are Gems and Jewellery, Software, textiles, readymade garments, cotton yarn, metal and metal products agro-based products, engineering items, drugs & pharmaceuticals and plastic and plastic items. In a bid to boost exports, awards are given based on export performance and implementing space rent subsidy scheme for participation in international exhibitions

In the latest Annual Survey of Industries (ASI) 2010-11, Maharashtra emerges at top position in terms of gross value added and emoluments to employees with a share of 20.5 % and 16.4% at all India level. In terms of number of factories, fixed capital and employment, the state ranks at 2nd position in the country with a share of 13.2%, 14.5, and 12.1 % respectively; number of factories, fixed capital & employment – state at 2nd position in the country with share of 13.2, Contribution of state in total value of output was 16.8% and in the net value added (NVA) was 21.4%.

Table 2 : Distribution of MSMEs and large industries and the employment figures in various regions of the state

Region	MSME	Emp (lacs)	large	Emp (lacs)
Mumbai	15565	2.47	311	0.47
Konkan	25625	3.01	1233	2.45
Nashik	19911	2.5	665	1.52
Pune	68080	7.86	1490	4.07
Aurangabad	11174	1.36	538	1.11
Amravati	7710	0.89	148	0.32
Nagpur	15501	1.97	541	1.31
Total	163566	20.97	4915	11.25

(Source: Industrial State Profile of Maharashtra 2013-14 prepared by MSME –DI, Mumbai)

Table 2 shows the distribution of MSMEs and large industries and the employment figures in various regions of the state. It will be seen that Pune is way ahead of all regions followed by Konkan and thereafter by Mumbai, Nashik and Nagpur

Major industries in terms of net value added during 2010-11

- Coke, refined petroleum products etc. (14.0 per cent)
- Basic Metals 11.7%
- Food Products, 11.1%
- Motor Vehicles , Trailers, 8.6%
- Machinery /Equipments, Repair & Installation (8.0%)

These groups accounted for 53.4% value of output of all industries & 51% of fixed capital during 2010-11

Similar to GIDC in Gujarat, Maharashtra has a Maharashtra Industrial Development corporation (MIDC). The role of MIDC includes:

- Establishment of growth centres and mini industrial areas to cover all talukas in the state
- Setting up of '5 starred industrial areas
- Construction of roads, drainage systems, provision for street lights in the industrial areas.
- Establishment of effluent collection & disposal systems for Chemical Zones.
- Implementing Government/Semi Government Projects

In addition the state government has also set up cooperative estates. Other government organizations include:

Maharashtra Small Scale Industries Development Corporation (MSSIDC)

- Procurement /distribution of raw materials required by MSMEs
- Providing assistance in marketing products & making available facilities for warehousing and handling of material.
- Assisting MSMEs in import & export.
- Helping handicraft artisans
- Organizing exhibitions.

Maharashtra CED

- Entrepreneurship Development Programme (EDP) /micro EDP
- Development Programmes for Self Employment (DPSE)
- Entrepreneurship Appreciation Programmes (EAP) Entrepreneurship Awareness Camps (EAC)
- Certificate Course for Developing Competent Personnel for SSI Management.
- Trainers Training Programme.
- Vocational Training based EDPs (VTPs)
- Management Development Programmes
- School/ College level EDP
- Publication of Udyojak. / News clipping Services
- Organization of exhibitions / Discussions / Workshops.
- Industrial Data Bank.

Bihar

The state government had enacted the Industrial Investment Policy 2006, Dept. of Industries, Bihar, followed by the Bihar Industrial Investment Policy 2011. Compared to the Northern, Southern and Western regions of India, states in the Eastern region have not been able to get the fruits of industrial and economic development. Ironically it is this region that enjoys good natural resources as coal and mineral deposits.

The thrust of the state policy is to provide a Single window system for clearance of projects, Creation of marketing potential for sales of products and timely identification of the reasons for sickness and appropriate actions undertaken. There are some very interesting features in the state policy that encourage employment as well as the reservation policy and hence there will be a more detailed discussion of the incentives in this part of the paper.

Thrust Areas

- Food Processing
- Agriculture based Industries
- Tourism related Industries
- Super Speciality Hospital
- Higher / Technical Educational Institutions
- Information Technology based Industries
- Electronic Hardware Industry
- Textile Industry
- Energy / Non-Conventional Energy

Similar to the GIDC and MIDC of Gujarat and Maharashtra respectively, Bihar has its own Bihar Industrial Area Development Authority (BIADA). Its role is:

- Development of international level of basic infrastructure.
- Developing a Land bank and establishment of industrial parks for new industries in rural and urban areas.
- Creation of necessary basic infrastructure as roads, water, power supply.
- Provision of Common Effluent Treatment in industrial areas /Estates.

The Industrial Incentive Policy- 2011 is aimed at granting preproduction incentive of subsidy/ exemption from stamp duty and registration fee as well as post production incentive of grant/exemption for preparation of project reports, purchase of land/shed, technical know-how, captive power generation/diesel generating set, quality certificate, VAT, luxury tax, electricity duty, conversion fee, market fee etc. The aim and expectation of the State government is to boost industrial growth along with accelerated employment opportunities and growth in per capita income of the state.

Bihar Infrastructure Development Enabling Act- 2006 aims to provide for rapid development of physical and social infrastructure in the State, attract private sector participation and provide comprehensive legislation for designing, financing, construction, operation, maintenance of infrastructure projects to reduce administrative and procedural delays for identifying generic project risks, simplify the inspection of factories, provision of self-certification.

Some of the Post production Incentives include

Project- Report Incentive: Reimbursement of the cost incurred in the project report preparation by the industrial units at the rate

of 50% subject to a maximum of Rs. 2 lacs. For project report prepared for Carbon Credit and if the unit gets Carbon Credit, 50% of the consultancy charges, subject to a maximum of Rs. 15 lacs, will be reimbursed.

Incentive granted on land/Shed: Units located in Bihar Industrial Area Development Authority / Export Promotion Industrial Park / Food Park / Agri Export Zone eligible for incentive / subsidy facilities / concession available after commencement of production.

Financial assistance for Technical-know-how: reimburse 30% (maximum Rs. 15.00 lacs) of the fee paid to the institution/organization for the technical know-how.

Incentive Grant for capital investment on Captive Power Generation/Diesel Generating Set: 50% (Fifty percent) of the amount spent on plant and machinery for establishment of Captive Power Generation/Diesel Generating set - No upper limit fixed.

New industrial units granted relief from payment of electricity duty under the Bihar Electricity Duty Act, 1948 for the generation & for own consumption of electricity from D.G. Set and Captive Power Units.

Capital Subsidy: New MSME units granted 20% capital subsidy on the amount spent on plant and machinery subject to a maximum of Rs. 75 lacs. New large industrial units granted 20% capital subsidy on the amount spent on plant and machinery subject to a maximum of Rs. 500 lacs.

Subsidy / Incentive on VAT

Unit gets a passbook from the State Government in which the details of the tax paid under Bihar VAT would be entered & verified by the commercial Taxes Department in the form prescribed in Appendix – III.

Director, Industries authorised to pay incentive amount on the basis of the verification.

New Units will avail 80% reimbursement against the admitted VAT amount deposited in the account of the Government, for a period of ten years

Maximum Subsidy amount is payable 300% of the capital Invested.

Zero VAT production of items, which do not attract VAT. Such units which produce items attracting zero VAT and pay income tax would be eligible for incentive upto maximum utilization of 70% of the installed capacity.

Other exemptions

- 100% exemption for seven years in luxury tax
- 100% exemption in electricity duty for seven years.
- 100% exemption in conversion charge.
- 100% exemption in market Fee for seven years.

Facilities granted for the units working under adverse situation: Reimburse 25% of deposited VAT amount in the account of state government against admitted VAT amount. Reimbursement admissible for 5 years continuously.

Creation of Industrial Rehabilitation Fund: to revive sick and closed industries

S.C / S.T / Women / Handicapped: Entrepreneurs avail 5% additional grant/ exemption/ subsidy than the limit fixed under this policy. Up to a turnover limit of Rs.30 lakhs per annum S.C / S.T. / Women / Handicapped category entrepreneurs who run small and tiny industries can avail 100% subsidy of the deposited amount in the account of Government in the form of VAT for a period of ten years.

Only 1% CST will be payable on the items produced by the registered MSMEs in Bihar.

Employment (Subsidy on employment generation): A unit generating direct employment of at least 100 persons after the implementation of this industrial policy, will be paid an incentive by the State Government, the amount of which will be equivalent to the EPF amount paid by such units for new employees for a period of one year from the date of their employment. This is indeed a good strategy to encourage employment generation.

Industrial Sickness- Small Sector: Sick industries being revived will not require sickness certificate on an annual basis, instead revival package shall specify the period of revival of sick units. Firms eligible to receive reliefs and concessions from banks/ Financial institutions as per instructions of RBI can avail 2nd time -will avail only the difference between the prior availed amount and proposed amount under this facility for rehabilitation.

Facility provided to the sick & closed units: Exemptions from Annual Minimum Guarantee (AMG), Monthly Minimum Guarantee (MMG) and Delayed Payment Surcharge (DPS) available from date of declaration of the unit as a sick unit. Facility admissible for a period of 5 years.

Facilities for expansion-diversification and modernisation of unit : eligible for incentives, upon their incremental production. Incentive on quality certification: 75% of cost incurred in obtaining certificate of I.S.O. standard (or equivalent) from

reputed national/international level organizations, would be reimbursed by the State Government.

Information technology mission

- Economic Development.
- Human Resource Development
- To provide simple, effective and transparent administration.
- State of the Art Communication System

Relief / incentive to the IT sector for its rapid development: Provision of self-certification and software units exempted from :

- Pollution Control Act to be effective as per GOI guidelines.
- Legal Power Cuts.
- Zoning Regulations in respect of location

Exemptions under the relevant Acts applicable to I.T industries

- I.T. Industry added in schedule-1 of the Bihar Shops and Establishment Act 1953 and concessions under sections 7,8 and 12 (I) shall be extended to it - the industry would be given exemption from the provisions relating to the hours of business & weekly closure.
- Hours of work for women employees relaxed under section 66 of the factories Act, 1948. Accordingly for I.T. establishments, Women would be able to work between 5 Am and 10 Pm instead of 6Am to 7 Pm in such establishments.
- I.T industry provided with exemptions under section 87 of the Employees State Insurance Act 1948.
- Information Technology industry added as an independent employment in the schedule of minimum wages Act 1948 so that the workers may be classified separately.

All incentives applicable to industries automatically available to I.T. & Biotechnology Industry.

Industry Department promotes Biotechnology & Information Technology on priority basis in industrial areas.

Handloom sector

- Provision of electricity grant of 75 paise per unit of in electricity tariff.
- Quality power supply made available for power looms.
- Workshop-cum-residence scheme for weavers- In weavers dominated area, scheme of construction of common facility centre & in case weavers do not have the room, land, then construction of Government shed would be implemented.

All the facilities available under Cluster Development Programme

are available to weavers Training under the scheme would be made.

Establishment of Integrated Textile Park: improvement & design, quality up-gradation, assistance in marketing.

Establishment of Urban Haat

Reimbursement of old loan dues and interest from weavers in the State would be implemented.

Implementation of reservation policy

Another interesting feature is that units which comply with the Reservation Policy of the Govt. of Bihar get additional 10% over and above the fiscal incentives for which they are eligible under this Policy.

Conclusions

The Central Government has focussed on a very comprehensive scheme to promote entrepreneurship and the MSME sector in the country. The governments of Gujarat, Maharashtra and Bihar as also most state governments have devised various encouraging schemes to encourage the MSME based on local conditions as well as provide necessary infrastructure. While the policies are laudable, India still lags at 147 out of 180 countries in ease of doing business. Better implementation in terms of accessing incentives, credit flow, marketing support as well as availability of skilled labour and labour and uniform tax reforms are the urgent need of the hour. The MSME Development Act 2006 is an enabling one. However, the quantum of investments in plant and machinery and equipments needs to be regularly revised upward in keeping with inflationary pressures and the growing quantum of business in the country. It is hoped that with proper implementation and transparency, the nation can truly realise the dream of Make in India, Start up India and of course Skill India.

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