



# Arth Anvesan

A Bi-Annual Journal of SMVDU College of Management

Volume 2 Number 1

January 2007



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## Contents

Emerging Issues in Banking Industry	N.D. Mathur	1-6
Performance Appraisal of Working Capital in Public Sector Steel Enterprises -A Case Study of Bokaro Steel Plant	Manas Pandey Gyan Prakash Upadhyay	7-11
Employment Planning in India: Approaches and Experience	T.R. Kundu Hemlata Sharma	12-16
Problems and Prospects of India's Export Marketing of Floricultural Products	Kuldeep Singh	17-19
Impact of Economic Reforms on Employment Elasticity in Organized Sector of India	Suparn Sharma Ganesh Kumar	20-25
Ethics in Services Marketing	Navin Mathur	26-30
Re-defining Commerce Education in India	B.C. Sharma W.C. Singh	31-34
Corporate Restructuring Practices in CPSUs -A Case Study of Steel Industry	Rajiv Kumar Vivek Sharma	35-39
Global Industrial Relations Scenario: A Glimpse	Jyoti Sharma	40-44
Promotion of Self- Employment through Entrepreneurship Development Programs	Anil Mehta	45-46
Role of Promotional Campaigns in Brand Success	Keshav Sharma Vivek Sharma	47-49
IPO Scam in India: A Case Study of Yes Bank	Sanjay Kumar Mishra	50-55
<i>Book Reviews</i>		
Wither India-An Autobiography by Om Parkash	N.D. Mathur	56-57
Reflections on Human Development by Mahbub-ul-Haque	Firoz Ahmad	58-60

# Arth Anvesan

A Bi-Annual Journal of SMVDU College of Management

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## Editorial

The M&A spurt, which has overshadowed the world economy, is not overnight but is the result of continuous efforts made towards the globalization. Indian industry has now all set to take on the global markets. Moving on this path, the total M&As during the last two years has increased from 2 million to 4 billion in India and this pressure of consolidation will keep on increasing which is expected to raise this figure to 7 billion in the next 2 years. During the last couple of the months the headlines in all business papers across the global are related to Indians doing shopping of firms throughout the world. Even without talking claim for Mittal (being an NRI & European businessman only), pure Indian firms like Ranbaxy, Asian paints, Marico, Videocon, have now been on buying spree. Indian pharma Industry is all set to take on the global markets. In 2005, Nicholas Piralmal acquired 17 per cent in Bio-syntech, a Canadian pharma packaging company. Torrent acquired Heumann pharma, a Matrix's acquisition of Belgian from Docpharma was the largest acquisition deal. Insights report from Price Waterhouse Coopers (PWC) indicates that pressures on the pharmaceutical industry for global consolidation will continue. According to Dealogic a consultancy firm tracing cross boarder investments, in the first nine months of 2006, investment outflow from India was estimated to be \$ 7.2 billion up from \$ 4.2 last year. That means this year India investment abroad may exceed foreign direct investment in India. Indian firms are more flexible and have greater tolerance and adaptability and the success rate of these marriages will be much higher than world's average. On the other side of the coin the macro variables of the economy are indicating healthy and progressive sign for the socio-economic profile of the rural as well as urban sectors of the economy. Under this dynamic, flourishing performance of the economy of India at the global level we are pleased to release the new edition of Arth Anvesan – A Bi-Annual Journal SMVDU College of Management.

**B.C. Sharma**  
(Editor)

# Emerging Issues in Banking Industry

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## 1. Prologue

Service industry is the name of the game in today's economy. Services represent about 80 percent of the US GDP and between 60 percent and 80 percent of the GDPs of the rest of the world's advanced nations. Service Sector in India has grown by leaps and bounds over the last two decades. The share of service sector in India was only 44.26 per cent of the GDP at factor cost, while it has raised to the level of 57.55 percent during the year 2005. On the similar lines, the share of the financing, insurance, real estate and business services have also increased from 18.08 percent to 22.36 per cent (CMIE 2006) during the same period. Rise in the service sector's share in GDP marks a structural shift in developing economies and hence getting better at services management must be accorded a high priority. Some economists caution that if the service sector bypasses the industrial sector, economic growth can be distorted. They argue that service sector growth must be supported by proportionate growth of the industrial sector; otherwise the growth of service sector will not be sustainable. Hence, growth in service sector must be compatible with the growth of industrial sector for sustainable economic development.

One and a half decade of economic and financial reforms has strengthened the fundamentals of the Indian Economy very effectively and transformed the operating environment for banks and financial institutions in the country (Purwar 2003). During this period banking culture has emerged in every nook and corner of the country and the traditional face of banking have undergone change from one of the mere intermediary to that of the provider of cost effective and efficient services (Bhide 2002).

Although, the empirical studies have shown that in the initial years, PSBs were having lower profitability and efficiency but lately all the negative impacts disappeared (Shirai 2001). Increasing globalization under WTO regime has provided opportunity to the domestic financial sector to perform and learn from the private domestic banks and foreign banks. Mattoo et al. (2001) have shown that services liberalisation is different from trade in goods, as former necessarily involves factor mobility. Foreign banks enter or move with their clients abroad and hence there will be presence of foreign banks from countries with which the host country has strong trade and investment relations (Pemerleano et al. 2001). Sen 2005 drew attention to the possible pitfalls in the way of the implementation of the Basel Norms regarding financial standards in Indian banking industry. Moreover there is one (Asian Development Outlook 2004) important lesson that can be learnt from the financial restructuring experience in developing Asia is the need for strong legal and institutional support accompanied by government resolve to improve the financial system. In the present era, the banking sector is growing vertically as well as horizontally and is being considered as the backbone of the service sector in particular and the whole economy in general.

## 2. Banking Sector Reforms

Financial sector reforms were initiated as a part of overall reform in the country and wide ranging reforms covering industry, trade, taxation, external sector, banking and financial markets have been carried out since mid 1991. Reforms were initiated in the middle of a 'current account' crisis occurred in 1991. The crisis was caused by poor macro economic performance. Fifteen years (1991-2006) of economic and financial sector reforms have strengthened the fundamentals of the Indian economy and transformed the operating environment for banks and financial institutions in the country.

The most significant achievement of the financial sector reforms have been the marked improvement in the financial health of commercial banks in terms of capital adequacy, profitability and asset quality as also greater attention to risk management. Further, deregulation has opened up new opportunities for banks to increase revenues by diversifying into investment banking, insurance, credit cards, depository services, mortgage financing securitization, etc. At the same time, liberalisation has brought greater competition among banks, both domestic and foreign, as well as competition from

mutual funds, non-banking financial companies (NBFCs), post office etc. During the post WTO regime competition will only get intensified, as large global players emerge on the scene. Increasing competition is squeezing profitability and forcing banks to work efficiently on shrinking spreads. Positive fallout of competition is the greater choice available to consumers and the increased level of sophistication and technology in banks. As banks benchmark themselves against global standards, there has been a marked increase in disclosures and transparency in bank balance sheets as also greater focus on corporate governance. Banking sector reforms essentially consisted of a two-pronged approach. While nudging the Indian banking system to better health through the introduction of international best practices in prudential regulation and supervision early in the reforms cycle, the idea was to gradually induce competition in the system. The implementation periods for such norms were, however, chosen to suit the Indian situation. Special emphasis was placed on building up the risk management capabilities of the Indian banks.

### 3. Visible Trends

Banking sector reforms has established a comprehensive system driven by market forces. The process however has not resulted in disregard of social objectives. At the same time, the reforms period experienced strong balance sheet growth of the banks in an environment of operational flexibility. A policy initiative taken has brought positive results. Trends that have been enjoyed in last fifteen years (1991-2006) are highly encouraging.

#### 3.1 Drastic Versus Gradual Privatisation Approach

While India's financial reforms have been comprehensive and in line with global trends, one unique feature is that, unlike with other former planned economies such as Hungary and Poland, the Indian Government did not engage in drastic privatisation of PSBs. Rather, it has chosen a gradual approach toward restructuring these banks. Public Sector Banks continue to be dominant, they find it difficult to reduce personnel expenditure and Government finds it difficult to accept genuine competition with in PSBs. In response to these concerns, the Government decided to gradually expand private sector equity holdings in PSBs, but still avoid the transformation of their ownership. In fact, premature privatization may give rise to banking crisis as happened in Hungary and Poland. Argentina promoted privatization of PSBs in a reasonably developed regulatory and infrastructure environment and improved productivity.

#### 3.2 Diversification of Banking Activities

Another unique feature of Indian banking sector is that the RBI has permitted commercial banks to engage in diverse activities such as securities-related transaction and leasing activities. The 1991 reforms lowered the CRR and SLR, enabling banks to diversify their activities. Firstly, diversification of banking activity provides them an opportunity to gain non- interest income and thereby sustained profitability. Secondly, this enables banks to maintain their life cycles and gives them an incentive to process inside information and monitor their clients. Thirdly, banks can stabilize their income by engaging in activities whose returns are imperfectly correlated, thereby reducing the costs of funds and thus rendering and underwriting costs. Fourthly, diversification may improve performance by diluting the impact of direct lending.

#### 3.3 Impact of Foreign and Private Domestic Banks

Another noteworthy feature of India's banking sector is that some large PSBs appear to have been performing reasonably well in the post reform period. This could be attributed to (a) the import of better risk management skills from foreign and private domestic banks (b) intensified competition (c) the diversification effect (d) reorganization i.e. mergers and acquisitions and (e) goodwill. While the entry of foreign banks brings with it benefits, it also carries certain risks for the host countries. Benefits are in the form of better quality banking services that are offered by foreign banks themselves and also through spurring competition and efficiency in the domestic markets. Recent empirical studies across several countries have shown that the presence of foreign banks is associated with improvement in banking sector efficiency through lower overhead expenses and interest margins for domestic banks. Arrival of foreign banks with better accounting and disclosure standards has led to an improvement in prudential regulation in domestic markets.

#### 3.4 Lazy Banking versus Crazy Banking

The most significant achievement of the financial sector reforms has been the increased profitability, productivity and efficiency of PSBs. There has been an improvement in overall capital adequacy of banks. As on march 31, 2002 around 92 out of 97 commercial banks operating in India had capital adequacy above the statutory minimum level of 9 percent. Introduction of prudential norms relating to asset classification, income recognition and provisioning, along with legal and institutional reforms, has led to visible improvement in asset quality in banks. Net NPAs (i.e. the portion of NPAs

which is not provided for) have declined gradually from 10.7 percent in 1994-95 to 5.8 percent in 2001-02. Increase in the number of players has raised competition, which is reflected in the decline of bank concentration ratio. Despite intensification of competition and introduction of prudential norms, all major bank groups in India have remained profitable. According to data analysed by RBI, there has been a noticeable decline in the difference between real interest rates in India and international benchmark rates since the mid 1990's, suggesting increased integration of the Indian banking sector with the rest of the world.

### **3.5 Electronic Banking**

Technology is another emerging trend in the banking sector and new issues have started cropping up which is going to pose certain problems in the near future. The new entrants in the banking are with computer background, however, over a period of time they would acquire banking experience. Where as the middle and senior level people have rich banking experience but their computer literacy is at a low level. Therefore, they feel handicap in this regard since technology has become an indispensable tool in banking. Computer literate employees, who are handful in number, have suddenly become more important for the banking organization. They have to be kept in good humour over other senior level experienced employees. PSBs have not been able to keep pace with the technological developments in the banking sector. Technology adaptation in PSBs is very low whereas foreign banks and new private sector banks have embraced technology right from the inception of their operations.

### **3.6 Global Banking**

Growing integration of economies and the markets around the world is making global banking a reality. The surge in globalisation of finance has also gained momentum with the technological advancements, which have effectively overcome the national borders in the financial services business. Widespread use of Internet banking has widened frontiers of global banking and it is now possible to market financial products and services on a global basis. In the coming years globalization will spread further on account of the likely opening up of financial services under WTO. India is one of the signatories of Financial Services Agreement of 1997. This gives India's financial sector including banks an opportunity to expand their business on a quid-pro-quo basis.

### **3.7 Consolidation and Move towards Universal Banking**

We are slowly but surely moving from a regime of "large number of small banks" to "small number of large banks". The new era is going to be one of the consolidations around identified core competencies. Mergers and acquisitions in the banking sector are going to be the order of the day. Successful merger of HDFC Bank and Times Bank earlier and Stanchart and ANZ Grindlays has demonstrated that trend towards consolidation. In India, one of the largest financial institutions ICICI took the lead towards universal banking with its reverse merger with ICICI bank. Another mega financial institution IDBI has also adopted the same strategy, and has already transformed itself into a universal bank. Consolidated accounting and supervisory techniques would have to evolve and appropriate firewall built to address the risks underlying such large organizations and banking conglomerates.

## **4. Emerging Issues**

The Indian banking sector has come a long way since the publication of the report of the first and second Narsimham Committee in 1991 and 1998. Incremental changes in the industry continue to occur, mostly in the form of liberalization of FDI regulation. Further financial deepening perhaps requires a context in which major structural changes are required not only at the margin among the private sector banks that account for about 15 percent of the banking sector's assets but also among the PSBs that continue to control about 80 percent of the deposits and assets of the industry. Competition has had an impact on the performance and behaviour of these banks, but it is perhaps time to bite the bullet, and strategies for change of their ownership. Efforts should be made to invigorate the market for corporate securities to reduce liquidity risk and thereby facilitate greater financial intermediation, and financial deepening.

### **4.1 Treatment of Insolvent Banks**

India's approach towards treatment of insolvent banks is an interesting issue. Rather than closing them down, policy makers in India have shown a preference to merge such banks with healthy PSBs. It has been felt in certain circles that such an approach may give rise to a moral hazard problem. Probably interest of small depositors has been paramount in the minds of policy-makers, while dealing with insolvent banks. As the weight of private banks increases further thinking will need to be done on the subject, both in terms of prevention of insolvency through advance regulatory supervision and action and post insolvency measures that discourage moral hazard and eventual fiscal cost.

## 4.2 Corporate Governance

Effective implementation of corporate governance practices in financial intermediaries has been a long-standing concern of the regulators and supervisors across the world. In India too, instances of inadequacies in the implementation of corporate governance norm and disregard to prudential practices on internal control have come to light. Such instances have seriously compromised the financial health of a few private sector commercial banks and cooperative banks prompt corrective action including criminal proceedings against the errant individuals have been initiated by the authorities in such cases. Continuation of multiple regulators has been identified as major challenging issue before the authorities in effective regulation and supervision including implementation of corporate governance and internal control norms.

## 4.3 Non- Performing Loans

Despite decline, continuation of considerable stock of NPLs in the banking system continues to be a cause for concern. Improved institutional and legal arrangements and strengthening of risk management practices by banks is likely to keep incremental NPLs low. Initiatives such as setting up of Asset Reconstruction Companies (ARCs) and greater emphasis on compromise settlements are likely to deal with the stock problem for NPLs. Banks may need to adopt a more pro-active approach in dealing with these issues.

## 4.4 Declines in Direct Bank Credit to Disadvantageous Society

Another area of concern relates to the decline in direct bank credit towards disadvantageous but socially important sectors such as agriculture and small-scale industries. It is felt that in the past inadequate risk management practices constrained banks to more vigorously pursue financing of such sectors. With improved risk management, it is likely that banks would deploy larger portions of their funds in these sectors. Banks now should be able to distinguish the risk quality of individual borrowers, rather than treating the borrowers of a particular class as equally risky.

## 4.5 Complex Resolution of Universal Banking

As in other parts of the world, changing income profiles and customer preferences have promoted the spread of universal banking in India. SBI, ICICI, HDFC Bank, LIC, PNB etc. have successfully launched themselves towards universal banking. It is felt that universal banks are more complex to supervise given their heterogeneous character. In universal banks, the probability of conflicts of interest that arise from serving various clients increases substantially, given the breadth of their activities. Furthermore, universal banks by holding large blocks of stocks in industrial companies may be able to influence the structure of the national economy in ways that run counter to national interest. Also, such concentration of economic power in their hands may give them an additional ability to influence political decisions and shift the balance of risks and returns in their favour. Luckily in India, the regulatory framework is co-ordinated among the RBI, SEBI and IRDA.

## 4.6 WTO and Banking Issues

India is a signatory of WTO Financial Services Agreement, 1997. There are broadly following major WTO related banking issues:-

- (a) Permission to foreign banks to enter India through the subsidiary route.
- (b) Restrictions on foreign share of banking assets.
- (c) Restriction on the number of branch licences per year.
- (d) Cap on investment limit of foreign banks in finance companies.
- (e) Issue of national treatment.
- (f) Trading in banking services through modes of supply other than commercial presence.

## 4.7 Prudential Regulation – Prisoner's Dilemma

The procyclicality of bank behaviour raises an important issue about adequacy of capital in India. In other words what could be the appropriate cyclically adjusted ratio that might mitigate moral hazard behaviour? When there is a boom, banks tend to increase their lending in pursuit of higher profits, making themselves vulnerable to adverse selection. During period of slump, it is the same loans that turn bad and require larger provisioning, which impact already sagging balance sheet. A choice before regulator is to tighten the prudential norms during the boom and to impose tighter provisioning requirements, thereby dampening the profits. This may also lead to constraints on genuine credit growth.

## 4.8 Consolidation – Life Boat Operation

In India, the Narsimham Committee-II highlighted the need for restructuring of PSBs. The structural issues could pose a major stumbling block. A degree of merger / acquisitions moves among the new private sector banks is being

witnessed in the banking sector. It is evident that new private sector banks with institutional parentage are making tremendous strides. They are also performing well in terms of enhancing shareholder value. It is the PSBs that need to evaluate the opportunities to consolidate as bigger players. SBI seems to be in a uniplayer market situation looking to its presence in the market. The merger of Indian banking in the past has been more in the nature of 'life-boat' operations. It must be reckoned that what is required is not merger of a weak bank with a strong one, but of two strong banks. In this case we need Arcelor-Mittal type mergers.

#### **4.9 Hazards of Electronic Banking**

Internet banking screens for online payments commonly require the name, and account number. In practice an electronic transfer is processed solely on the basis of the account number. This has the effect that, if the payer keys in the wrong account number the payment will be made but to the holder of the account number that has been keyed in. The mistake may only come into light when the intended recipient tells the payer that the payment has not been received. When the payer tries to find out where the payment has actually gone, he or she may be told that the recipients name cannot be released for reasons of confidentiality. This bank may claim that it acted as per instructions of the payer i.e. the account number. The recipients' bank may claim that it has no liability because it acted on the instructions it received from the payer's bank. It may also seek to rely on the Bulk Electronic Clearing System Rules (The BECs). By the time the payer realises that the payment has gone astray, the recipients may have withdrawn and used the funds, with or without realising that there was a mistake. Hence such may be the hazards of electronic banking.

### **5. Challenges Ahead**

The various issues mentioned above help to bring into sharp focus the emerging challenges ahead.

#### **5.1 Augmenting Profitability**

The most direct result of the above changes is increasing competition and narrowing of spreads and its impact on the profitability of banks. The challenge for banks is how to manage with running margins while at the same time working to improve productivity, which remains low in relation to global standards. This is particularly important because with dilution in banks equity, analysts and shareholders now closely track their performance. Thus, with falling spreads rising provisions for NPAs and falling interest rates, greater attention will need to be paid to reducing transactions costs. This will require tremendous efforts in the area of technology and for banks to build capabilities to handle much bigger volumes.

#### **5.2 Technology is the Key Now**

Technology has now become a strategic and integral part of banking, driving banks to acquire and implement world-class systems that enable them to provide products and services in large volumes at a competitive cost with better risk management practices. The pressure to undertake extensive computerization is very real as banks that adopt the latest in technology have an edge over others. Customers have become highly demanding and banks have to deliver customised products through multiple channels, allowing customers access to the bank on 24/7 basis.

#### **5.3 Risk Management**

The deregulation environment brings in its wake risks along with profitable opportunities and technology plays a crucial role in managing these risks. In addition being exposed to credit risk, market risk and operational risk, the business of banks would be susceptible to country risk which will be heightened as controls on the movement of capital are eased. In this context, banks are upgrading their credit assessment and risk management skills and retaining staff, developing a cadre of specialists and introducing technology driven management information systems.

#### **5.4 HR-IT Mix**

The far-reaching changes in the banking and financial sector entail a fundamental shift in the set of skills required in banking. To meet increased competition and manage risks, the demand for specialized banking functions, using IT as a competitive tool is set to go up. Special skills in retail banking, treasury, risk management, foreign exchange, development banking etc will need to be carefully nurtured and built. Thus, the twin pillars of banking sector i.e. human resources and IT will have to be strengthened.

#### **5.5 Innovation and Greater Customer Orientation**

In today's competitive environment, banks will have to strive to attract and retain customers by introducing innovative products, enhancing the quality of customer service and marketing a variety of products through diverse channels targeted at specific customer groups.



## 5.6 Responsibilities towards Corporate Governance

Besides using their strengths and strategic initiatives for creating shareholder value, banks have to be conscious of their responsibilities towards corporate governance. Following financial liberalization, as the ownership of banks gets broad based the importance of institutional and individual shareholders will increase. In such a scenario, banks will need to put in code for corporate governance for benefiting all shareholders of a corporate entity. Introducing internationally followed best practices and observing universally acceptable standards and codes is necessary for strengthening the domestic financial architecture. This includes best practices in the area of corporate governance along with full transparency in disclosures. In today's globalised world, focusing on the observance of standards will help smooth integration with world financial markets.

## 6. Epilogue

The structural adjustment process during banking reforms has not been completely painless. While there are achievements, there are pitfalls as well. What is important is to strike a balance: move on a careful middle path between the ex-cathera over zeal for intervention and a complacent belief in the ability of the banking system to self-rectify its problems. The real world is far divorced from idealism. A constant challenge, therefore, remains for the authorities in identifying new risks, eschewing harmful incentives and strengthening the banking sector to keep pace with the changes in technology. Competition in banking sector is going to be tough with WTO agreement. Banks in India have to benchmark themselves against the best in the world. Competition in banks should be such that it is growth enhancing, cost effective and customer friendly. Presently competition is largely in urban areas and metropolitan area that too is limited to few functional areas viz. setting up of ATMs, issuance of credit / debit cards, retail/personal banking, and business on account of mutual funds, besides this there is no competition in rural areas. In addition to this, PSBs in India have scale as well as goodwill advantage. A thorough restructuring of PSBs is required. Fifteen years of reforms have passed but PSBs have not shown loudable improvement in their performance. They have already been exposed to new regulatory environment and competition. Government should take further steps by promoting mergers and acquisitions of sound banks and close unviable banks rather than merging them with sound banks. It is high time for appropriate consolidation of Indian PSBs. It is the time of clarion call for Indian banking. Vigil is the eternal price of freedom, which includes economic freedom as well.

*(This paper is the part of the Keynote Address delivered by the author in the 'International Conference' on "Service Industry Challenges & Opportunities" at Waljat College of Allied Sciences, Sultanate of Oman, Muscat, September 13-14, 2006).*

विज्ञानं ब्रह्म

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## Performance Appraisal of Working Capital in Public Sector Steel Enterprises -A Case Study of Bokaro Steel Plant

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### Introduction

There is hardly any business enterprise which does not require any amount of working capital, however the amount required for working capital differs from enterprises to enterprise. The profit earning capacity of a business depends largely on its efficiency in managing its working capital. In a period of rising costs and scarce funds, the working capital is one of the most important areas commanding managerial attention. The management of working capital has gained great significance in the recent years, particularly in the view of the credit squeezes imposed by Reserve Bank of India. Working capital gross or net, constitute an important element in the total financing of an enterprises. Working capital management involves the administration of all aspects of the current assets and current liabilities. It is thus, concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship between them. Both the excessive and the inadequate working capital position are dangerous from the firm's point of view. Excess working capital results in idle funds, which do not earn any return for the firm. Shortage of working capital impairs firm's profitability, because of production interruptions.

### Steel Authority of India Limited (SAIL)

Steel Authority of India Limited (SAIL), a Navratna Public Sector Undertaking (PSU) of Government of India, is leading steel making company in India and ranked worlds 15<sup>th</sup> largest steel producer in 2003 in terms of crude steel production. SAIL was incorporated in January 1973 as a holding company for steel and associated input industries. SAIL today is one of the largest industrial entities in India. Its strength has been the diversified range of quality steel products, catering to the domestic need, as well as the export markets and a large pool of technical and professional expertise. The total turnover of the company was Rs. 31,800 crore during 2004-05. The net profit of the company in the year 2004-05 was Rs. 6,817 crore.

The accent in SAIL is to continuously adapt to the competitive business environment and excel as business organization, both within and outside India. SAIL is a fully integrated, one of the low-cost iron and steel producer engaged in manufacturing, developing and marketing of iron and steel products of all major qualities and grades. It produces wide range of both basic and special steels for engineering, construction, power, railways, automobiles and defence sector for domestic as well as international market. SAIL makes semis and finished products as flats (such as hot and cold rolled coils and sheets, plates, galvanized sheets, electrolytic tin plats, pipes etc.) and longs (such as rails, structural, bar and rods etc.) at its four Integrated Steel Plants (Bhilai Steel Plant, Durgapur Steel Plant, Rourkela Steel Plant, Bokaro Steel Plant) and three special steel plants (Alloys Steel Plant, Salem Steel Plant, Visvesvaraya Iron and Steel Plant). The current level of hot metal production of SAIL is 12.71 MT, in which the share of Bokaro Steel Plant (BSL) is 4.1 MT.

### Bokaro Steel Plant (BSL)

Bokaro Steel Plant - the fourth integrated plant in the Public Sector - started taking shape in 1965 in collaboration with the Soviet Union. It was originally incorporated as a limited company on 29th January 1964, and was later merged with SAIL, first as a subsidiary and then as a unit, through the Public Sector Iron & Steel Companies (Restructuring & Miscellaneous Provisions) Act 1978. The construction work started on 6th April 1968. The Plant is hailed as the country's first Swadeshi steel plant, built with maximum indigenous content in terms of equipment, material and know-how. Its first Blast Furnace started on 2nd October 1972 and the first phase of 1.7 MT ingots steel was completed on 26th February 1978 with the commissioning of the third Blast Furnace. All units of 4 MT stage have already been commissioned and the 90s' modernization has further upgraded this to 4.5 MT of liquid steel.

The new features added in modernization of SMS-II include two twin-strand slab casters along with a Steel Refining Unit. The Steel Refining Unit was inaugurated on 19th September 1997 and the Continuous Casting Machine on 25th April 1998. The modernization of the Hot Strip Mill saw addition of new features like high pressure de-scalars, work roll bending, hydraulic automatic gauge control, quick work roll change, laminar cooling etc. New walking beam reheating furnaces are replacing the less efficient pusher type furnaces. A new hydraulic coiler has been added and two of the existing ones revamped. With the completion of Hot Strip Mill modernization, BSL is producing top quality hot rolled products that are well accepted in the global market. BSL is designed to produce flat products like Hot Rolled Coils, Hot Rolled Plates, Hot Rolled Sheets, Cold Rolled Coils, Cold Rolled Sheets, Tin Mill Black Plates (TMBP) and Galvanized Plain and Corrugated (GP/GC) Sheets. Bokaro Steel Plant has provided a strong raw material base for a variety of modern engineering industries including automobile, pipe and tube, LPG cylinder, barrel and drum producing industries.

### Objectives of the Study

The main objectives of the present study are:

- To study the overall working capital in Bokaro Steel Plant (BSL).
- To analysis the working capital turnover ratio.

### Research Design and Coverage - Data Collection

Data for the study have to be gathered from the annual reports of Bokaro Steel Plant (BSL) and Steel Authority of India Limited (SAIL) published records along with some primary information to be gathered through personal interviews of the authorities.

**Statistical Analysis-**The data thus collected have to be processed through various statistical tools viz., ratio, growth ratio, percentage & proportions.

**Scope and Limitation of the Study-** The study offers an opportunity for addressing BSL's practice in working capital management and examines the management performance in the segments of financial management in BSL. The study covers a seven years period beginning 1999 to 2005. The study period has been selected from the point of view of convenience to the study.

### Analysis of Overall Working Capital in BSL

Working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities. It is shown in above table that the current assets of BSL vary from the year 1999 to 2005. It is highest Rs. 2560.26 crore in the year 1999 and comes down at Rs. 1000.80 in the year 2004 and Rs. 1279.78 crore in the year 2005. Where as current liabilities Rs. 2059.37 crore in the year 2004 and Rs. 1085.91 crore in the year 1999, Rs. 1906.24 crore in the year 2005. It reflects the overall working capital percentage and varies from 196.93% in the year 1999 to (-) 83.68% in the year 2005.

**Table 1: Overall Working Capital in Bokaro Steel Plant (BSL)**

**(Rs. in Crores)**

Year	Current Assets	Current Liabilities	Working Capital	% of Working Capital to total working capital
1999	2560.26	1085.91	1474.35	196.93
2000	1774.46	1176.46	598.00	79.89
2001	2130.66	1618.48	512.18	68.41
2002	1540.44	1375.18	165.26	22.07
2003	1261.62	1570.72	-316.10	-42.22
2004	1000.80	2059.37	-1058.57	-141.40
2005	1279.78	1906.24	-626.46	-83.68
1999- 2005	-----	-----	748.66	100

Source: Annual Report of Bokaro Steel Plant (BSL)

### Analysis of Current Ratio in BSL

Current ratio establishes the relationship between current assets and current liabilities. It attempts to measure the ability of a firm to meet its current obligations or short-term solvency. Current ratio is calculated by dividing current assets and total current liabilities. The ideal current ratio is 2: 1. It indicates that current assets double the current liabilities are considered to be satisfactory.

**Table 2: Current Ratio in Bokaro Steel Plant (BSL)**

(Rs. in crores)

Year	Current Assets	Current Liabilities	Current Ratio
1999	2560.26	1085.91	2.36
2000	1774.46	1176.46	1.51
2001	2130.66	1618.48	1.32
2002	1540.44	1375.18	1.12
2003	1261.62	1570.72	0.80
2004	1000.80	2059.37	0.49
2005	1279.78	1906.24	0.67

Source: Annual Report of Bokaro Steel Plant (BSL)

From the table, the current ratio, in the year 1999 was 2.36:1. It means that the current ratio represented by BSL shows that the more liquidity position and greater the safety of funds. BSL was able to meet its current liabilities. Therefore, it can be observed that the liquidity position was more satisfactory with higher current ratio. But it is shown in the table that the current ratios are found in decreasing order. It indicates that the liquidity position of BSL was initially very good and starts decreasing later on. BSL may find it difficult to pay its current liabilities in future. In the year 2004, the current ratio was 0.49 or 0.49:1. It represents very poor current ratio and indicates a alarming signal to the management to take corrective measures. The slight improvement in the current ratio shown during the year 2005. It gives an indication that management of BSL redesigned their current ratio policy.

### Analysis of Quick Ratio in BSL

The quick ratio is concerned with the establishment of relationship between the quick assets and current liabilities. Quick Assets represent the difference between current assets and inventories and prepaid expenses. The ideal quick ratio of 1:1 is considered to be satisfactory.

**Table 3: Quick Ratio in Bokaro Steel Plant (BSL)**

(Rs. in crores)

Year	Current Assets	Current Liabilities	Inventory	Quick Assets	Quick Ratio
1999	2560.26	1085.91	2074.38	485.88	0.45
2000	1774.46	1176.46	1419.27	355.19	0.30
2001	2130.66	1618.48	1672.79	457.87	0.28
2002	1540.44	1375.18	1240.60	299.84	0.22
2003	1261.62	1570.72	954.02	307.60	0.20
2004	1000.80	2059.37	911.73	89.07	0.04
2005	1279.78	1906.24	953.87	325.91	0.17

Source: Annual Report of Bokaro Steel Plant (BSL)

The quick ratio of BSL during the years 1999 to 2005 shows very poor ratio. It indicates that quick ratio is going in decreasing order. In the year 1999, it was only 0.45: 1 and comes down at the level of 0.04: 1 in the year 2004. Once again the figure shown in the table reflects that the management of BSL was not effective regarding the payment of current liabilities.

### Analysis of Inventory to Net Working Capital Ratio in BSL

Inventory represents, by the largest proportion of current assets in business organizations and most important item of the working capital. Therefore, the dominant position of the inventories in working capital of Bokaro Steel Plant (BSL) obviously calls for almost attentions and control of its management.

**Table 4: Inventory to Net Working in Bokaro Steel Plant (BSL)** (Rs. in crores)

Year	Inventory	Net Working Capital	Inventory to Net Working Capital Ratio
1999	2074.38	1474.35	1.41
2000	1419.27	598.00	2.37
2001	1672.79	512.18	3.27
2002	1240.60	165.26	7.51
2003	954.02	-316.10	-3.02
2004	911.73	-1058.57	-0.86
2005	953.87	-626.46	-1.52

Source: Annual Report of Bokaro Steel Plant (BSL)

The table shows that in the year 1999 inventory to net working capital ratio of BSL was Rs. 1.41 crore and it was Rs. 7.51 crore in the year 2002. It decreased at very low point and come to (-) RS.3 .02 crore during the year 2003 and (-) Rs. 1.52 crore during the year 2005.

### Analysis of Working Capital Turnover Ratio in BSL

Working Capital Turnover Ratio indicates the firm's liquid position and number of times the working capital is turned over in the course of a year. It establishes the relationship between cost of sales & net working capital.

**Table 5: Working Capital Turnover Ratio in Bokaro Steel Plant (BSL)** (Rs. in crores)

Year	Net Sales	Net Working Capital	Working Capital Turnover Ratio
2000	4793.72	598.00	8.02
2001	4395.52	512.18	8.58
2002	4153.35	165.26	25.13
2003	5475.45	-316.10	-17.32
2004	5689.00	-1058.57	-5.37

Source: Annual Report of Bokaro Steel Plant (BSL)

The working capital turnover ratio in the year 2000, 2001 & 2003 indicated that the working capital have been utilized is making sales of 8.02, 8.55 and 25.13 times in a year respectively. This also indicated that the favourable turnover of inventories & receivables position in BSL. But, in the year 2003 & 2004 working capital turnover ratio indicated that liquid position accomplished by very slow turnover inventories & lower sales.

### Conclusions

Working Capital Management is concerned with the problems arise in attempting to manage the current assets, current liabilities and the inter relationship between them. Its operational goal is to manage the current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. During the period 1999 to 2005, it is shown that the current assets decreases and current liabilities increase in BSL. Therefore, it reflects the overall working capital percentage and varies from 196.93% in the year 1999 to (-) 83.68% in the year 2005. It gives an indication that management of BSL redesigned their current ratio policy. The management of BSL was not effective regarding the payment of current liabilities. The payment to creditors in time leads to building up of good reputation and consequently it increases the bargaining power of the firm regarding period of credit for payment and other conditions. Initially the

working capital indicated that the favorable turnover of inventories & receivables but later on working capital turnover ratio reflected that incurred liquid position accomplished by very slow turnover inventories & lower sales.

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## Employment Planning in India: Approaches and Experience

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### 1. Introduction

An important objective of planning in India has been to provide for increasing employment opportunities not only to meet the backlog of unemployed but also the new addition to labour force. The large population of India and its dependence on agriculture at a large scale have contributed to growing unemployment and underemployment. Since under employment and unemployment are important factors for the incidence of poverty in the country, removal of unemployment and underemployment has been an important objective of India's development planning. The objective of this paper is a three-fold one. Firstly to undertake a review of approaches/strategies that has been adopted to address the problem of unemployment in India. Secondly, to examine the impact of such strategies on the nature and growth of employment. Thirdly and finally, to identify the shortcomings of the strategies and to make appropriate suggestions with a view to arriving at a better strategy to deal with the unemployment problem.

### 2. Employment Approaches/Strategies

Broadly, there have been two approaches to address the problem of unemployment in India: a 'direct' approach in the form of wage-employment and anti-poverty programmes and an 'indirect' one-addressing the problem indirectly through trickle down effects of growth. These two approaches have simultaneously been in operation since 1951, though with varying emphasis depending upon changes in the nature and gravity of the problem and the overall growth strategy.

To begin with the problem of unemployment was considered more or less incidental to the lack of growth in the colonial period, and thus a legacy of past. Under the so called Nehru model, growth of GDP was taken as the basic economic objective and state as its prime engine and regulator. Employment and social equity at large was given a low priority, to be achieved indirectly through spread effects of growth, though direct employment generation programme, namely the Community Development Programme (CDP), was also initiated in 1952. Accordingly, until fifth five-year plan it was customary to quantify the employment expected to be generated as a result of investment. The belief was that economic growth will itself create employment opportunities and absorb an increasing number of unemployed-an idea drawn from trickle down theory of development.

Secondly, with a backlog of only about 5 million unemployment at the beginning of second plan, the problem of unemployment was not regarded as a serious one. Rather, it was the problem of under-employment in the agriculture sector which was considered to be a challenging one. Going by this perception, a consistent policy for creating jobs was promulgated for the first time in second five-year plan with the idea that the large surplus of agricultural sector could be transformed to industrial sector. However, at the same time the Mahalanobis strategy of a capital intensive development programme with the emphasis on heavy and basic industries was adopted in preference to Brahma and Vakil wage good strategy with its emphasis on the basic needs of masses. The Mahalanobis strategy worked as a limitation to large absorption of unskilled labor.

The problem was further compounded by population explosion of 50s and 60s and low growth of GDP. As a result, the backlog of unemployment went on increasing. By the early 70s, the problem of unemployment and poverty reached alarming proportions. The government of India set up a committee under the chairmanship of M. Bhagwati to suggest measures to solve the problem of unemployment. With the publication of Bhagwati Committee report in 1973, the Government initiated various programmes to provide employment.

The fifth plan particularly mentioned small farmer Development Agency (SFDA-1974-75), Marginal farmer and Agricultural Labour Development Agencies (MFAI 1973-74) and Drought Prone Area Programme (DPA-1973-74). It was however the sixth plan which evolved specific schemes for employment generation for the first time. So the beginning of sixth five-year plan in 1980 may be taken as a dividing year in our survey of approaches/strategies to the

problem of unemployment, representing a shift from hitherto lopsided strategy, mainly relying on the trickle down effects of growth, to a more balanced strategy emphasizing both the indirect and direct approaches together. During the seventh plan period Jawahar Rozgar Yojana (April 1989) for providing employment to rural unemployed and Nehru Rozgar Yojana (October 1989) for providing employment to urban unemployed were launched. NREP and RLEGP were merged with Jawahar Rozgar Yojana. The eighth plan gave priority to achieve near full employment by the turn of century. The plan document mentioned “The Eighth Plan aims at bringing employment into sharper focus in a medium-term perspective with the goal of reducing unemployment to negligible level within next ten years”. The measure for achieving this goal included diversification of agriculture wasteland development, small manufacturing schemes for urban informal sector and housing. The employment Assurance Scheme (EAS –1993) to provide employment of at least 100 days in a year in villages was initiated. The ninth plan emphasized, “It is necessary to increase public investment in agriculture especially for strengthening irrigation and other rural infrastructure in backward areas so that sustained agriculture growth and therefore acceleration of employment growth is facilitated”. Besides this the plan intended to emphasize horticulture – an employment intensive sector. To deal with problem of multiplicity in December 1997, Swarn Jayanti Shahari Rojgar Yojana, and the IRDP and Allied programmes such as Training of Rural Youth for Self employment (TRYSEM), DWCRA Million wells scheme (MSW), SITRA and Ganga Kalyan Yojana, were merged into a self-employment programme called the Swarn Jayanti Gram Swarajgar Yojana with the objectives of focused approach to poverty alleviation. For providing additional wage employment in rural areas and also to provide food security, Sampoorna Gramin Rojgar Yojana was launched into two stages from September, 2001 by merging employment assurance scheme (EAS) and Jawahar Gram Smridhi Yojana.

Tenth five year plan aims at provision of gainful employment in excess of addition to labour force. The assessment of unemployment situation in the base year of 10<sup>th</sup> plan 2002 showed that to clear the backlog of unemployment 35 million opportunities are required to be created. The plan has brought out the need for developmental initiatives in certain areas. The planning commission’s group on creation of employment opportunity has estimated the potential for employment in certain areas like Agricultural and allied activities, Greening the country through age forestry, Energy plantation for biomass power generation, rural sectors and small and medium enterprise, Education and literacy and Health family and child welfare services.

Jai Parkash Narain Rojgar Guarantee yojna was proposed in 2002-03 budgets for employment guarantee in the poorest districts. National Food for work programme to intensify the generation of supplementary wage employment was launched in Nov. 2004. In Dec. 2004, cabinet approved National Rural Employment Guarantee bill 2004 in which state governments are to provide at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled work and SGRY and National Food for work programme be subsumed within the scheme once the act is in force. The bill has now been passed by the Parliament.

### 3. Nature and Growth of Employment: The Pre and Post 1980 Periods.

As has already been noted above, in the year 1980 the strategy to address the employment problem had undergone a qualitative change in the sense of adopting a more balanced strategy, combining the hitherto indirect approach with the direct one. In this section we examine the impact of this policy change on the nature and growth of employment using appropriate statistical and econometric techniques. Incidentally, our analysis shed light on two important hypotheses which have recently been in circulation, namely that the growth from 1980 onwards has been jobless one, and second, the job security in that period has deteriorated.

To measure the impact of the policy change in 1980 on the growth of unemployment, we use the following semi-logarithmic regression with dummy regressor.

$$\text{Log } L_t = \text{Log } A + (r_1 + r_2 D_t) t + u_t \quad (1)$$

Where,

$L_t$  is employment (in millions) in period  $t=0$ (=1951),  $t=1$  (=1952).

$D_t$  is a dummy variable such that

$D_t = 0$  if  $t < 1980$

$= 1$  if  $t \geq 1980$

$r_1$  and  $r_2$  are growth rates;  $u_t$  is the error term assumed to satisfy all the basic assumption of the classical linear regression model.



In this model a change from 0 to state 1, i.e., a change in the value of D from 0 to 1 signifies a policy change, namely the introduction of wage-employment and anti-poverty programme. Hence the coefficient  $r_2$  of D is a measure of the impact of the policy change on the growth of employment. We have estimated equation (1) using data on employment reported in the five-year plans. The OLS estimates for the intercept and slope parameters are summarised in Table 1.

**Table 1: Growth of Employment in the Pre and Post 1980**

Coefficients	T-value	Level of significance
Log A = 5.014	-	
$r_1 = 0.004924$	1.859	0.105
$r_2 = 0.01602$	4.820	0.002

As is clear from the table 1 the estimates of instantaneous growth rate  $r_1$  (=0.004924) is significant only at 10% level whereas the estimates of  $r_2$  (=0.01602) is highly significant i.e. significant even at 1% level. As has already been explained  $r_2$  measures the impact of the policy change (1980) on the growth of employment. The fact that the estimated value of  $r_2$  is highly significant implies that there has been a significant increase in the growth of employment after 1980. To measure the impact of the policy change on the employment elasticity, we have used the following double logarithmic regression with a dummy variable.

$$\text{Log } L_t = \text{Log } A + E_1 \text{Log } \text{GDP}_t + E_2 D_t \text{Log } \text{GDP}_t + u_t \quad (2)$$

Where,  $\text{GDP}_t$  = Gross domestic product in period  $t=0$ (=1951),  $t=1$ (=1956)..., measured at constant prices of 1993-94.

$D_t$  is a dummy variable such that

$$D_t = 0 \text{ if } t < 1980$$

$$= 1 \text{ if } t \geq 1980$$

$E_1$  and  $E_2$  are employment elasticities, with  $E_2$  measuring the impact of the policy change on the employment elasticity. The OLS estimates for the regression parameters are reported in table 2:

**Table 2: Employment Elasticity in the Pre and Post 1980 Period.**

Coefficients	T-value	Level of significance
Log $L_t = -2.20868$	-3.72955	0.007366
$E_1 = 0.509883$	12.52724	.000
$E_2 = 0.01692$	0.464697	0.6562

As is clear from the Table the regression estimate  $E_1$  (=0.509883) of the common elasticity for the pre and post 1980 period is highly significant. To recall, the regression coefficient  $E_2$  (=0.01692) measures the impact of the policy change (1980) on the employment elasticity. It is evident from the value and sign of  $E_2$  that the employment elasticity has increased after the policy change, though the increase has not been statistically significant. Incidentally, our regression results of growth of employment and elasticity go against the widely held belief that the GDP growth onto the 80's has been job less growth.

To measure the impact of the policy change on the absolute level of employment, we compare the average levels of employment for the two periods with the help of the standard t-test for the difference/equality of sample means.

Let  $L_1, L_2, \dots, L_n$  be a sequence of time series observations on employment. We divide this sequence into two sub-sample; one consisted of observations belonging to the pre-1980 period (Period-1) and the other those belonging to the post 1980 period (Period-2). We assume these two sub-samples to have come from two different normal

populations with their means  $\mu_1$  and  $\mu_2$  and variance  $\sigma_1^2$  and  $\sigma_2^2$ . Let the sizes, sample means and variances of two

sub-samples be  $n_1$  and  $n_2$ ,  $\bar{L}_1$  and  $\bar{L}_2$  and  $s_1^2$  and  $s_2^2$  and.

The t-test for difference/equality of means:

Null hypothesis  $H_0 : \mu_1 = \mu_2$

Alternative hypothesis  $H_A : \mu_1 \neq \mu_2$

Dixon and Massey have shown that the statistic

$$t = \frac{(\bar{L}_1 - \bar{L}_2) - (\mu_1 - \mu_2)}{(\sigma_1^2/n_1 + \sigma_2^2/n_2)^{1/2}}$$

is approximately distributed as t distribution with the degree of freedom (df) given by

$$f = \frac{(\hat{\sigma}_1^2/n_1 + \hat{\sigma}_2^2/n_2)^2}{\left(\hat{\sigma}_1^2/n_1\right)^2 \frac{1}{n_1+1} + \left(\hat{\sigma}_2^2/n_2\right)^2 \frac{1}{n_2+1}} - 2$$

(When the df are not an unbiased value the close integer value is taken).

Where  $\hat{\sigma}_1^2$  and  $\hat{\sigma}_2^2$  are the unbiased estimations of  $\sigma_1^2$  and  $\sigma_2^2$ , respectively, i.e., i.e.,

$$\hat{\sigma}_1^2 = n_1 \frac{S_1^2}{n_1 - 1} = \sum_{i=1}^{n_1} (L_i - \bar{L}_1)^2 / n_1 - 1$$

$$\hat{\sigma}_2^2 = n_2 \frac{S_2^2}{n_2 - 1} = \sum_{i=n_1+1}^{n_2} (L_i - \bar{L}_2)^2 / n_2 - 1$$

The computed value of t statistic works out to be -3.88, indicating that the average level of employment has undergone a significant increase after the policy change (1980).

Now we turn to examine how the policy change in the year of 1980 has affected the job security at the macro level. One indicator of job security that comes handy here is the stability/variability of the level of employment. To test the stability of this indicator of job security, we have used the F-test for equality/difference of variances. F-test for equality/difference of variance: stability of level of employment. The statistic

$$F = \frac{\hat{\sigma}_1^2}{\hat{\sigma}_2^2}$$

follows F-distribution with  $n_1-1$  and  $n_2-1$  degrees of freedom. The sample variance  $\hat{\sigma}_2^2$  (=8949.25) for the post 1980

turns out to be greater than the sample variance  $\hat{\sigma}_1^2$  (= 785.22) for the pre-1980 period. Accordingly, computed value of F-statistic comes out to be 11.39, indicating that the level of employment has been more stable during the pre 1980 period. This implies that policy change has adversely affected the job security of workers at macro-level.

#### 4. Conclusions and Suggestions

We have seen how the overall employment generation strategy under the five-year plans has been a varying mix of the so-called direct and indirect approaches. Till 1980, this strategy had been a lop sided one, mainly emphasizing the indirect i.e. the growth of GDP. But since 1980, a more balanced strategy emphasizing both the direct and indirect approaches has been adopted. We have examined the impact of this policy change on the level, growth, elasticity of employment and the job-security at the macro level. Contrary to the widely held belief that the GDP growth after 1980

has been a jobless one, we find that there has been a significant increase both in the level of employment and the growth of employment. There is also evidence, though a weak one, that employment elasticity has improved after 1980. But, the level of employment has been more stable in the pre-1980 period than the post-1980 period, indicating that job security of workers have deteriorated after the adoption of the new strategy. However, the new (balanced) employment strategy has failed to make a significant dent into the problem of unemployment. What are the possible reasons for failure of the new strategy?

To begin with, like in the pre-1980 period the indirect component of the new strategy continues to be based upon a simple and definite relationship between GDP growth and employment growth. The underlying premises has been to take GDP growth and employment growth interwoven together by assuming that employment is a dependent variable and with GDP growth employment will also grow. However, the relationship between the GDP growth and employment may not be that simple, i.e. growth in GDP need not automatically lead to growth of employment. Much depends upon the growth of GDP by origin and the factor-intensity of the production techniques. It is now a well documented fact that the acceleration in GDP growth since 1980 has been due to fast growth of the services sector. In fact the services sector alone accounted for 50% of GDP growth during 80's and 90's. On the other hand, the contribution of agriculture to the GDP growth has declined after 1980. The share of agriculture in the GDP declined from 38% in 1980 to about 24% in 2004. Given that agriculture is still the main source of livelihood for 58% of population, this slowdown in growth of agriculture has been the chief factor behind the failure of new strategy. So, in order to maximize the impact of growth of GDP on employment growth, it is essential to step up public investment in agriculture, which has continuously been declining since 1985. Besides agriculture, and allied activities, other employment potential areas where investment needs to be increased are the handlooms and handicrafts, tourism, social sectors, gems and jewellery, the construction industry and rural infrastructure.

On the other hand, the direct approach has been marred by large scale leakages in the delivery system. The wage-employment and anti-poverty programmes have been breeding ground of corruption, with the functionary attached to the programmes assuming the role of 'gatekeepers' charging gate-money. Little wonder that the impact of the direct component of the strategy on employment generation has also been marginal. Moreover, these programmes are neither integrated within the overall macro economic framework nor do they form parts of an integrated micro-level plans. All this calls for a qualitative change in these programmes. First, they must be the rock bed of local level planning and implemented by PRIs under the strict vigil of the civil society organizations. Secondly, the wage-employment and anti-poverty programme must be part and parcel of a nationwide plan. In other words, the direct and indirect components of the new employment strategy need to be skilfully integrated.

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## Problems and Prospects of India's Export Marketing of Floricultural Products

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### Introduction

In the 21<sup>st</sup> century, international market has been occupying the center-stage. Therefore, there is a dire need for the expertise in the field of global marketing to evolve an effective marketing strategy for the upliftment of India's exports. No doubt, the global market secures the economies of scale and develops standardized goods as per the norms of international specifications at fairly competitive prices. There is an example of the third world country like Korea where tremendous development took place only because of innovation in the field of marketing. Therefore, a country like India may have tremendous potential in the field of marketing in general and marketing of floricultural products in particular. Floricultural products constitute a small but important segment of the global trade. A quantum jump witnessed in India's exports of floricultural products during the last decade clearly points out that India can play a very significant role in the world trade.

In spite of so many natural advantages and export friendly environment for floricultural trade, there are various problems of the floriculture industry. The problems related to finance, skilled personnel, planting material of good quality, cut-throat competition, and insufficient dissemination of technology and lack of comprehensive database. These days' different solutions to these problems have been gaining ground.

### Objectives of the Study

The objective of the study is aimed at comprehending the problems and prospects of India's trade in floricultural products in the global market. The specific objectives are the following:

- (i) To study the India's role in international floricultural trade.
- (ii) To identify the problems and prospects of India's floriculture sector.
- (iii) To make an assessment of the overall performance of floricultural exports in India.

### Sources of Data

The study is mainly based on the secondary data available from the Government sources. Most of the data are collected from: Foreign Trade Statistics of India, Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Government of India, New Delhi. Export Statistics for Agro and Food Products, APEDA, Ministry of Commerce, Government of India (GOI), New Delhi. Guidelines for Exports of Cut Flowers to the European Markets, Commonwealth Secretariat, London. Floriculture Today, Various Issues.

### Methodology

The study period ranges from 1991-92 to 2003-04. Tabular and regression analyses are the principal tools. The country-wise and year-wise export coefficients for floricultural products have been calculated. All the importing countries of India's floricultural products have been classified on the basis of export coefficients into five categories of Very High Potential (0.15 and above), High Potential (0.10 to 0.15), Middle Potential (0.05 to 0.10), Low Potential (0.01 to 0.05) and Very Low Potential (less than 0.01). Such classification presents the direction of the trade of floricultural products and market segmentation on the global scale for the two years, i.e., one for 1991-92, the beginning year when the floriculture sector saw a major dent for its growth and another for 2003-04, the current year.

By taking into consideration the absolute figures of India's floricultural exports, a linear relation is fitted between these exports and the time period by taking the time as independent variable and exports as dependent variable. In this manner, future projections have also been made with the help of the same regression line. The mathematical and statistical tool used in the study of the following:

$$Y = a + bt$$

Where, Y = Floricultural Exports, t = time, a = intercept term, b = linear trend.

## Results and Discussions

Table-1 reveals that in the year 1991-92, the USA, Germany and Italy had very high potential for India's floricultural exports.

**Table 1: Classification of Principal Markets Based on 1991-92 Export Coefficients**

Category	Market	Export Coefficient	Rank
Very High Potential (0.15 & above)	USA	0.1833689	1
	Germany	0.1684221	2
	Italy	0.1573342	3
High Potential (0.10 to 0.15)	UK	0.1062499	4
Middle Potential (0.05 to 0.10)	Netherlands	0.8694480	5
	France	0.7253780	6
Low Potential (0.01 to 0.05)	Japan	0.0412707	7
	UAE	0.0340114	8
	Switzerland	0.0312881	9
	Spain	0.0261860	10
	Malaysia	0.0184484	11
	Saudi Arabia	0.0137639	12
	Australia	0.0103413	13
	Very Low Potential ( < 0.01)	Egypt	0.0076295
	Denmark	0.0059810	15
	Oman	0.0049994	16
	Canada	0.0032165	17
	China	0.0028949	18
	Singapore	0.0021639	19
	New Zealand	0.0021450	20
	Belgium	0.0016897	21

*Source: Calculated on the basis of data collected from Foreign Trade Statistics of India, Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, GOI, New Delhi.*

The UK had the position of high potential. Netherlands and France had the position of middle potential. Likewise Japan, UAE, Switzerland, Spain, Malaysia, Saudi Arabia and Australia showed low potential

**Table 2: Classification of Principal Markets Based on 2003-04 Export Coefficients**

Category	Market	Export Coefficient	Rank
Very High Potential (0.15 & above)	USA	0.2930798	1
High Potential (0.10 to 0.15)	UK	0.1122940	2
	Netherlands	0.1081133	3
	Japan	0.1021024	4
Middle Potential (0.05 to 0.10)	Germany	0.0855862	5
Low Potential (0.01 to 0.05)	Italy	0.0462968	6
	France	0.0326137	7
	Poland	0.0271490	8
	Australia	0.0206806	9
	UAE	0.0139985	10
	Spain	0.0133473	11
	Belgium	0.0101584	12
Very Low Potential ( < 0.01)	Singapore	0.0098306	13
	Canada	0.0094106	14
	Portugal	0.0076274	15
	Switzerland	0.0075460	16
	New Zealand	0.0074294	17
	Austria	0.0069834	18
	Sweden	0.0069209	19
	Greece	0.0068880	20
	Israel	0.0056298	21

*Source: Ibid, Table-1*

countries. Such picture changed in the current year of 2003-04 (Table-2) where no doubt the status of USA remained unchanged. The position of Germany and Italy changed from very high potential to middle and low potential countries respectively. In the current year, Netherlands took the lead who swapped its place from middle potential to the category of high potential countries. It must be remembered here that Netherlands is the world's highest exporter of floricultural products. Similarly, Japan also improved its position from low potential to high potential country. Therefore, India's strength for these exports lies in the USA, the UK, Netherlands, Japan, Germany, Italy, Poland, etc. The linear regression line fitted has been found as:

$$Y = -2576.590 + 1620.628 t$$

The linear trend values calculated on the basis of the above regression line are shown in Table-3.

**Table 3: Linear Trend Values of India's Floricultural Exports**

Year	Estimated Trends	Year	Estimated Future Projections
1991-92	-955.961	2004-05	20,112.22
1992-93	664.668	2005-06	21,732.85
1993-94	2,285.297	2006-07	23,353.47
1994-95	3,905.926	2007-08	24,974.10
1995-96	5,526.555	2008-09	26,594.73
1996-97	7,147.184	2009-10	28,215.36
1997-98	8,767.813	2010-11	29,835.99
1998-99	10,388.440	2011-12	31,456.62
1999-00	12,009.070	2012-13	33,077.25
2000-01	13,629.700	2013-14	34,697.88
2001-02	15,250.330	2014-15	36,318.51
2002-03	16,870.960	2015-16	37,939.14
2003-04	18,491.590		

Source: *Ibid*, Table-1

Keeping in view the Table-3 and the original data, it seems that the future estimation is under valued. The actual growth in India's floricultural exports will prove more buoyant than the projected values. It may be expected that the floricultural exports will increase at an exponential rate of growth.

### Conclusions and Suggestions

Floriculture industry may be visualized as a sunrise industry. Floriculture has ample scope for exports along with its domestic consumption. In the global market, India has a threat from Colombia and Ecuador due to their close proximity to the giant-sized U.S. market. Despite many problems, floriculture sector has a tremendous potential for diversification in terms of production, employment, income and exports of India. Lastly, the flower growers world over may make joint efforts to translate the meaning of colours into sentiments.

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## Impact of Economic Reforms on Employment Elasticity in Organized Sector of India

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After independence India adopted mixed economy model with emphasis on socialistic pattern of society. However, after forty years of economic planning, it was realized that there is a need for more market orientation and liberalization in line with the development taking place throughout the world. Thus, India in order to keep pace with the world economy though delayed in comparison to some other country, entered in the field of economic reforms. Economic reforms in India started not on account of own volition but as a result of the state of economy at the beginning of last decade of 20<sup>th</sup> century, which was in deep crisis due to various reasons like a steep fall in foreign exchange reserves, a high inflation rate, large public and current account deficits, a heavy and growing burden of domestic and foreign debt and external shocks. The idea was to change the structure of the economy with faster growth rate and better human values. Keeping this in view, India embarked upon an ambitious programme of economic reforms by adopting the policy of Liberalization, Privatization, and Globalization (LPG) in 1991. The important planks of this strategy were transition from a command economy to an open and market friendly economy, reduction in the role of public sector and investment therein and selective state intervention. These reforms brought a paradigm shift in the Government policy, where the role of state and market is redefined so as to improve the productivity and efficiency of the system and thereby accelerating growth and to enable the state to focus more intensively on certain social and economic goals. The basic medium term objective of the economic reforms was to lay the foundation of sustained growth of output and employment in the context of increasing global competitiveness of the Indian Economy (Singh, 1994). While the long term objectives of all these reforms were to bring about rapid and sustainable improvement in the quality of life of the people of the country.

With this process of reforms, fiscal deficit was controlled, economy was opened up to the global market, restrictions and controls were removed, public sector has contracted or constricted and private sector has expanded. The economy started achieving new heights through the policy of LPG. With the plans to opening up the economy by the government, labour power was considered as a main resource (factor) of development. However, some unprecedented effects of this reforms wave were felt. It was feared and recent studies have also experienced that the first causality of market economy is employment. The pursuit of productivity, efficiency and cost-reduction necessitates induction of sophisticated labour saving technologies and consequently, there is a reduction in employment opportunities in organized sector of the economy. The economic reforms may have given a boost to industrial productivity and brought in foreign investment in capital intensive areas. But the boom has not created jobs which were expected. Economic reforms through programmes of technological up gradation have promoted capital intensive technologies and as a result, employment opportunities and employment elasticity has declined.

The problem of low employment elasticity in manufacturing i.e. the feeling that employment growth is lagging seriously behind output growth, has been a serious issue in development economics since the 1960s, when concerns about the employment problem in third world countries began to be discussed. An early survey of the issues was that of Morawetz (1974). These concerns continue to demand the attention of development economists more in the light of experience of India since independence (Bhalotra, 1998). The share of manufacturing output in GDP has grown from 10 per cent in 1951 to 33 per cent in 1991, in which the share in employment has grown from 11 per cent to 16 per cent. The issue of low employment elasticity takes on added significance because India, like many countries in Africa and Latin America, has undertaken serious deregulation of the economy. While the growth in output and productivity that often accompanied these reforms has been welcomed, the low level of job growth has generated skepticisms regarding allocation of the benefits. This is especially so because the wages in the modern manufacturing sector are already very much above than in the household, informal manufacturing and service sectors. If labour absorption continues to be slow in the high wage sector, population growth is bound to increase this gap as new job seekers increasingly press for absorption in the informal sector.

Moreover on the foreign trade front, manufacturing exports, which is the potential sector for employment generation in the post reforms and post WTO era, one of the curious features of India's experience, is the lack of substantial growth in exports of labour-intensive, relatively low technology manufactures, garments, toys, plastic products and the like. In south-east Asia and even more so in China, the first phase of exports of manufactures was concentrated in such labour-intensive sectors. These labour-intensive sectors also provided substantial employment. It was only later that these economies made a mark in exports of medium technology products, like electronic products. India, on the other hand, has made a mark in exports of medium and even relatively high-technology products, like automobiles and automobile parts, pharmaceuticals and software. These sectors, however, are not labour-intensive, besides the labour they require highly skilled and professional labour. But India languishes in the area of low technology, labour-intensive exports. Thus the phenomenon is of fairly high rates of growth with very minimal increases in employment. The importance of low technology manufactures lies in because these are labour-intensive.

### **Review of Literature**

There is no denying the fact that India's pre-1991 industrial policy was unduly protectionist more so prior to 1980s. Though such policy, among other things, helped the country to lay a sound industrial base, Nambiar et al(1999) emphasized that it cannot be disputed that it created a sheltered market for Indian industries, exempted them from foreign competition, brought a sense of complacency and ultimately resulted in 'high cost' and 'poor quality' industrialisation. This 'high protection-high cost-poor quality' syndrome needed to be corrected by import liberalisation. But the important question is about the nature and pace of import liberalisation and the areas of import liberalisation. The study suggested for a strategic approach towards trade and industrial policy to secure a sustained increase in industrial output and employment as also to protect India's industrial base without sacrificing efficiency.

Krishnaswamy (2004) stated that there is hardly any doubt that over time, the manufacturing industries sector of India has to grow in size and contribute more substantially to GDP if future economic development is to be significantly faster than in the past. But, it has also to serve the purpose of providing more opportunities for employment, at higher levels of productivity and income to the employees. In the newer industries like information technology, biotechnology, communications and pharmaceuticals, increases in output have been accompanied by more job opportunities and higher remunerations. But for organised industry as a whole, the growth in employment has not been commensurate with the increases in output. While studying the solution of employment problem in India, Ghosh (2004) suggested that the priority must be to generate a steady process of labour transfer; ensuring that a substantial proportion of the newly created regular wage paid jobs are for low-skilled workers, which points to the need for a growth strategy oriented towards exports of manufactures. Singh (2000) on the basis of data for the period 1981-82 to 1996-97 estimated that employment elasticity, which is the main vehicle for attaining the goal of full employment and development with human face, has got a lower, fluctuating and more or less declining trend during the period under study.

Rani et al (2004) analysed the impact of economic reforms on the organized and unorganized manufacturing sectors. It also seeks an explanation for the growth trends observed by looking at specific trade and industrial policies. The analysis indicated that economic reforms policies had a differential impact on the various industry groups. In particular, the growth in the automobile industry and the infrastructure sector helped the growth of the manufacturing industry, especially in the unorganized segment to generate of quality employment. Nagraj (2004) studied that between 1995-96 and 2000-01, about 1.1 million workers, or 15 per cent of workers in the organized manufacturing sector lost their jobs. These losses have been widespread across major states and industry groups. To answer the question-what explains the unprecedented employment contraction?, the study found that setting up of the National Renewal Fund as a component of structural adjustment programme in 1991 to finance VRS in public sector enterprises seems to have provided the initial impetus. Further, the study emphasized that while taking cues from it, private sector retrenched and laid off workers, as enforcement of labour laws was relaxed, which can be considered reforms by stealth. Shedding of excess labour was perhaps one of the initiatives of industrial restructuring in the face of increased domestic and external competition under changed policy regime.

### **Objectives of the Study**

Employment generation to meet the backlog of unemployed and the new additions to the labour force is a challenging task. The increasing diversification of the economy together with acceleration in economic growth has



caused structural changes in the nature of the job market. Higher economic growth in the recent past, if it has been more capital intensive, may have resulted in lower employment intensity. One of the major aims of economic reforms in India was to generate more employment opportunities and to remove the problem of poverty through trickle down effect. However, employment has become a biggest challenge for the Indian economy posed by economic reforms. The basic objective of this paper is to analyze and review the impact of economic reforms on employment growth and elasticity in organized sector of India. On the same line study also concentrates on the growth behaviour of gross domestic production (GDP) as a proxy of economic development for the pre and post reforms periods.

### Research Methodology

In order to achieve the objectives of the study, a time-series data on the relevant variables have been collected for the period from 1981-82 to 2002-03, as the data of this period is available in a consistent form. To examine the impact of economic reforms on employment elasticity in organized sector of India, the period from 1981-82 to 1991-92 has been taken as the pre-reforms period and the period from 1992-93 to 2002-03 as reforms period. The selection of the period is primarily based upon the availability of data. The problem with the statistics regarding unemployment in India is that only government produces statistics on employment that also only related to the organised sector of the economy, which is a very small part of the economy. The secondary data have been collected from various issues of Economic Survey of India, Statistical Abstract of India and Ministry of Finance. Besides, the journal, magazines and periodicals relevant to the study have also been consulted. The annual growth rate and employment elasticity has been calculated by using simple ratio methods and double-logarithmic regression.

### Results and Discussion

The table 1 shows the annual growth rates of employment in the organized sector (Public and Private Sector) and GDP. It is clear from the table that in 1981-82, the annual growth rate in public sector was 2.98 per cent and in 1991-92 it fell down to 0.80 per cent. But in the reforms period it has been continuously declining and after 1995-96 (except in 1996-97) it has become negative and in 2002-03 fell down to (-) 1.03. It is evident from the table that in most of the years of reforms period the annual growth rate of employment in public sector is negative. This table also shows the same result in the case of average annual growth rates in public sector. It was 1.98 per cent in the pre-reforms period and (-) 0.30 in the reforms period. But in the case of private sector the result is somewhat different. In 1981-82, the annual growth rate of employment in private sector was 2.06 per cent and after some fluctuations in 1991-92 it was 2.20 per cent, while during 1984-85 and 1986-87 it was negative. But during reforms period it has been continuously declining and after 1997-98 (except 2000-01), it became negative and during 2002-03 fell down to (-) 0.13. In the case of average annual growth rates in this sector the results are different from public sector. It was 1.04 per cent during pre-reforms period but during reforms it was 0.67 per cent.

The same table indicates that in the case of whole organized sector the annual growth rate of employment was 2.68 per cent in 1981-82 and it become 1.21 per cent in 1991-92. But during the period of economic reforms, it has become negative after 1997-98 and reached (-) 0.76 per cent during 2002-03. It may be observed from the table that average annual growth rate of total organized sector declined from 1.54 per cent during pre-reforms period to (-) 0.01 per cent in the reforms period. Comparing average annual growth rates of public, private and total organized sector, it is observed that it was negative in public sector and organized sector as a whole but positive in private sector during the period of reforms. Further, the table also reveals that during the pre-reforms period annual growth rate of GDP varied with in the range of 1.3 per cent to 10.5 per cent but during the reforms period it shows less fluctuation and varied in the range of 4.0 per cent to 7.8 per cent. But in the case of average annual growth rates it was 5.21 per cent in the pre-reforms period and 5.91 per cent in the reforms period, which shows some positive impact on growth rate of GDP.

**Table 1: Annual Growth Rates of Employment in Organized Sector and GDP (in per cent)**

Years	Public Sector	Private Sector	Total organized Sector	GDP (at constant price)
1981-82	2.98	2.06	2.68	6.0
1982-83	3.20	0.09	2.20	3.1
1983-84	2.50	2.70	0.86	7.7
1984-85	2.38	0.53	1.50	4.3
1985-86	2.40	0.87	1.95	4.5
1986-87	1.92	0.12	1.32	4.3
1987-88	1.64	0.38	1.28	3.8
1988-89	0.69	0.83	0.73	10.5
1989-90	1.76	1.73	1.75	6.7
1990-91	1.92	1.25	1.44	5.6
1991-92	0.80	2.20	1.21	1.3
1992-93	0.60	0.06	0.45	5.1
1993-94	0.62	1.00	0.73	5.9
1994-95	0.11	1.62	0.55	7.3
1995-96	(-) 0.19	5.69	1.51	7.3
1996-97	0.67	2.04	1.1	7.8
1997-98	(-) 0.72	0.71	(-) 0.28	4.8
1998-99	(-) 0.01	(-) 0.57	(-) 0.19	6.5
1999-00	(-) 0.52	(-) 0.60	(-) 0.54	6.1
2000-01	(-) 0.91	0.07	(-) 0.61	4.4
2001-02	(-) 1.90	(-) 2.54	(-) 2.10	5.8
2002-03	(-) 1.03	(-) 0.13	(-) 0.76	4.0
<b>Average annual growth rate in pre reforms period</b>	<b>1.98</b>	<b>1.04</b>	<b>1.54</b>	<b>5.25</b>
<b>Average annual growth rate in post reforms period.</b>	<b>(-)0.30</b>	<b>0.67</b>	<b>(-)0.01</b>	<b>5.91</b>

Source: Statistical Abstract of India (Various issues); Note: GDP at Constant prices (1993-94)

The employment elasticities are calculated on the basis of annual growth rates of employment and GDP. The behavior of employment elasticities of total organized sector is presented in the table 2.

**Table 2: Employment Elasticities in Organised Sector**

Years	Employment Elasticity	Years	Employment Elasticity
1981-82	0.45	1992-93	0.09
1982-83	0.71	1993-94	0.12
1983-84	0.11	1994-95	0.07
1984-85	0.35	1995-96	0.21
1985-86	0.43	1996-97	0.14
1986-87	0.31	1997-98	(-) 0.06
1987-88	0.37	1998-99	(-) 0.03
1988-89	0.07	1999-00	(-) 0.09
1989-90	0.26	2000-01	(-) 0.14
1990-91	0.26	2001-02	(-) 0.36
1991-92	0.93	2002-03	(-) 0.19
<b>Average Employment Elasticity in Pre- reforms period</b>	<b>0.39</b>	<b>Average Employment Elasticity in Post- reforms period</b>	<b>(-) 0.02</b>

Source: Statistical Abstract of India (Various issues); Note: GDP at Constant prices (1993-94)

It is evident from the table that during the whole study period it is less than one and it was negative after 1997-98. The table also explains that it was near to positive one only during 1982-83, and 1991-92. The employment elasticities show more fluctuation in the early years of the reforms period. During 1991-92, it was 0.93 per cent but during 2002-03 it has also become 0.19. In the case of annual employment elasticities it was 0.39 per cent in pre-reforms period and (-) 0.02 per cent in reforms period. This result indicates that the economic reforms are unable to generate more employment in national economy. The main factors which may have contributed to persistently increasing jobless growth of an economy are drastic reduction in development expenditure by the government, indirect lay-off of workers in public sector undertakings, massive retrenchment of workers in the private manufacturing sector and closure of a large number of small-scale factories in different parts of the country.

The closure or disappearance of many Indian companies, especially those engaged in consumer industry, also adds fuel to this fire. Moreover, it may also be due to the reason that inspite of the government efforts towards sustained growth through economic reforms, the emergence of private sector may have gone for capital-intensive technique of production, which has posed a threat to retrenchment of posts particularly in the labour surplus economy like India. However, the major contribution in the overall growth of organised employment is made by the private sector during the post reforms period.

However, there was hardly any growth of employment in the public sector but the organised private sector employment grew by 0.11 per cent (Economic Survey 2005-06) and the public sector accounted for about 70 per cent of the total employment in the organized sector. It must be noted that the public sector is more protective and conducive to the working class than the private one. Further, the thrust on the privatization of public sector units both at state and centre level employment opportunities may have reduced, because employment in this case is linked with productivity and not just to reduce the number of unemployed. In spite of the declining share of value added, the manufacturing sector continues to be a sector driving the growth of the economy. While the organized sector shown positive trends in the beginning of reforms period, but in later period after 1995, the unorganized sector surged forward in terms of employment generation as well as value added (Unni et al., 2003).

Thus, while in the organized sector of the economy the employment growth is very slow, the major burden of additional employment has been borne by the unorganized sector. The plight of employees working in the unorganized sector is very miserable due to the lack of labour law coverage, seasonal and temporary forms of employment, high labour mobility, dispersed nature of operations, discretionary wages, lack of organizational support, casualization of labour and low bargaining power, extremely harsh and exploitative working conditions, no fixed hours of work with total absence of old age and sickness securities or other safety nets. Thus, increasing burden on this sector will more deteriorate the situation.

विज्ञानं ब्रह्म

### Conclusions and Suggestions

Success or failure of any economic programme is measured by the welfare it generates for the people. If an economic policy creates increasing hopelessness and unemployment, it is high time to think again and revisit the course of action. The reforms should aim at reductions in corruption, increased efficiency, increased employment and reductions in inequality and poverty. Instead of it in India, economic reforms have been hitting hard to those who are the weakest in the society and are giving maximum benefits to the richer sections of the people. It is observed from the study that during the reforms period the average annual growth rates of employment in public sector and total organized sector is negative. Although it is positive in private sector, yet the private sector could not compensate the reduction of employment in the public sector. Though the average annual growth rate of GDP in reforms period is a bit higher than the pre-reform period yet the employment elasticity is negative. On the same lines, it can be estimated that the growth rates of GDP is far higher than the growth rate of employment opportunities in different sub-sectors, which further implies that there is a jobless growth of economy during the reforms period. As a consequence, our workforce in search of more jobs is compelled to move towards unorganized sector which has many hurdles towards healthy and productive employment. On this front, it is to be noted that in developing countries like India unorganized sector has its own limitations.

To reiterate it can be said that economic reforms were introduced to improve the productivity and efficiency of the economy. No doubt, these reforms have given a boost to our economy in many ways but the efforts in generating more employment opportunities in the organized sector have remained in vain. However, the observed limitations can be removed by framing certain policies which can improve the working conditions of this sector besides providing them

safety nets, thereby, stopping the shifting of workforce from organized to unorganized sector. If the unorganized sector is properly channelised on the lines of organized sector, it will prove a gold mine for generating faster employment opportunities. To convert the existing jobless growth into more job generating growth of economy, there is a desperate need to rethink and reformulate the economic policies. The new challenges of liberalization, privatization and globalization are to be kept at par with the social, political and economic needs of the people. By all these endeavors the goal of increasing employment opportunities in organized as well as unorganized sector can be achieved. Moreover in order to have reconciliation between the objectives of output maximization and employment generation, it required to dethrone the GDP approach and adopt employment oriented pattern of development. Furthermore, if globalisation is to lead to broad-based growth, then a substantial push in labour-intensive manufactures is a must to make a dent in the unemployment situation.

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## Ethics in Services Marketing

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### Introduction

In common parlance, ethics refer to a system of accepted beliefs based on morals that control behaviour. However, business ethics are generally construed as rules, standards or principles that provide guidelines for morally appropriate behaviour for businesses. But also ethics is concerned with clarifying what constitutes human welfare and the kind of conduct necessary to promote it. Ethical issues emerge when our perceptions of what constitutes human welfare requires clarifications to a moral dilemma. Thus, ethics involves judging human ends and controlling means to achieve these ends. Human goal is to ensure human perfection of the human being as a person. Ethics is concerned with sharpening our knowledge about the work practices affecting the dignity of the individual human being. Ethics in business is concerned with the relationship of business goals and techniques to human ends. Business ethics studies the impact of the business activities on the good of the individual, the firm, the business community and the society as a whole.

### Ethics in Service Sector in India

Based on this philosophy of ethics, many service providers have developed code of conduct for their businesses, profession and marketing activities. Through the code of conduct they have endeavored to inculcate ethical values and achieve the human goals. A few examples are noted below:

#### (1) Code of Medical Council of India

The code of conduct for medical practitioners suggested by the Medical Council (MCI) of India says: “The prime object of the medical profession is to render service to humanity; reward or financial gain is a subordinate consideration. Who-so-ever chooses this profession, assumes the obligation to conduct himself in accordance with its ideals. A physician should be an upright man, instructed in the art of healings. He shall keep himself pure in character and be diligent in caring for the sick; he should be modest, sober, patient, prompt in discharging his duty without anxiety; conducting himself with propriety in his profession and in all the actions of his life.” “The honoured ideals of the medical profession imply that the responsibilities of the physician extend not only to individuals but also to society.” “Physicians, as good citizens, possessed of special training should disseminate advice on public health issues. They should play their part in enforcing the laws of the community and in sustaining the institutions that advance the interests of humanity. They should particularly co-operate with the authorities in the administration of sanitary/public health laws and regulations.” Further, soliciting of patients through advertising by medical practitioners is prohibited except when announcement is made in press for starting practice, for change of address and such other purposes.

#### (2) Code of conduct prescribed by the Bar Council of India

The Millennium Pledge by Bar Council Members says: “While entering the new millennium, the bar council of India sharing vision for a better world, re-dedicates itself to strive for maintenance of highest standards of professional ethics, advancement of legal profession and service to humanity.” It is against an advocate’s code of ethics to solicit or advertise work and advertising amounts to misconduct on the part of the advocate. An advocate owes allegiance to a higher cause - that of truth and justice. He must not consciously miss-state the facts or knowingly conceals the truth.

#### (3) Fair Practice Code of Indian Banks Association (IBA)

The IBA has provided some guidelines in respect of credit cards. It says— “Our key commitments to you. We promise to - Act fairly and reasonably in all our dealings with you by:

- 1 Meeting the commitments and standards in this Code, for the products and services we offer, and in the procedures and practices our staff follow.
- 2 Making sure our products and services meet relevant laws and regulations.

Our dealings with you will rest on ethical principles of integrity and transparency “We will make sure that all advertising and promotional material is clear, fair, reasonable and not misleading.”

#### **(4) Tata's Code of Conduct**

Tata companies are also engaged in the service sector (telecommunication, insurance, etc.) The Tata code of conduct is as follows: "A Tata Company shall be committed in all its actions to benefit the economic development of the countries in which it operates. It shall not engage in any activity that adversely affects such an objective. It shall not undertake any project or activity to the detriment of the nation's interests, or those that will have any adverse impact on the social and cultural life patterns of its citizens. A Tata company shall conduct its business affairs in accordance with the economic, development and foreign policies, objectives and priorities of the nation's government, and shall strive to make a positive contribution to the achievement of such goals at the international, national and regional level, as appropriate." "A Tata company shall market its products and services on its own merits and shall not make unfair and misleading statements about competitors' products and services. Any collection of competitive information shall be made only in the normal course of business and shall be obtained only through legally permitted sources and means." "A Tata company shall strive to provide a safe and healthy working environment . . . prevent the wasteful use of natural resources ..... improve the quality of the life of the people." Further every employee shall deal with professionalism , honesty and integrity as well as high moral and ethical standards .

#### **(5) Code of Conduct of Jet Airways**

In carrying out their duties and responsibilities, employees and directors are prohibited from:

- (i) appropriating corporate business opportunities for themselves that are discovered through the use of Company resources or information or their position as directors or employees;
- (ii) using Company resources or information, or their position as directors or employees, for personal gain; and
- (iii) competing with the Company, directly or indirectly.

In carrying out their duties and responsibilities, employees and directors should endeavor to deal fairly, and should promote fair dealing by the Company, its employees and agents, with customers, suppliers and competitors. No employee or director should seek to take unfair advantage of anyone (including the Company) through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. Further, the code says that in carrying out their duties and responsibilities, directors and employees must amply with applicable laws, rules and regulations.

#### **(6) Code for Chartered Accountants**

Some of the acts and omissions which constitute professional misconduct in the code for Chartered Accountants are as under:-

- (i) Soliciting clients for professional work either directly or indirectly.
- (ii) Advertising his professional attainments or services
- (iii) Charging fee based on percentage of profit or which are contingent on the findings or results of such employment.
- (iv) Accepting a position as auditor in such conditions to constitute undercutting.

This ethical code aims at ensuring professional independence and integrity.

#### **(7) Code of the Institute of Company Secretaries in India**

##### **Mission Statement**

"To continuously develop high caliber professionals ensuring good corporate governance and effective management and to carry out proactive research and development activities for protection of interest of all stakeholders, thus contributing to public good."

#### **(8) Code of Conduct of the Bank of Maharashtra**

The code envisages and expects –

- (i) Adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- (ii) Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with Government and regulatory agencies.
- iii) Compliance with applicable laws, rules and regulations.
- (iv) To redress misuse or misapplication of the Bank's assets and resources.
- (v) The highest level of confidentiality and fair dealing within and outside the Bank.

### **(9) Code of Conduct of Geojit Financial Services**

“We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to attain our performance rules with integrity. The Board extends its fiduciary responsibilities in the widest sense of the term. Our disclosures always seek to attain the best practices in international corporate governance. We are also responsible to enhance long term shareholder value and respect minority rights in all our business decisions.”  
 “We expect all officers to act in accordance with highest standards of personal and professional integrity, honesty and ethical conduct.”

### **10) Code of Conduct for Tourism Suggested by WTO**

With its headquarters in Madrid, Spain, the UNWTO plays a central and decisive role in promoting the development of responsible, sustainable and universally accessible tourism, with the aim of contributing to economic development, international understanding, peace, prosperity and universal respect for, and observance of, human rights and fundamental freedoms. In pursuing this aim, the Organization pays particular attention to the interests of developing countries in the field of tourism.

### **(11) The Advertising Agencies Association of India**

The Advertising Agencies Association of India (AAAI) is a national organization of advertising agencies, formed to promote their interests so that they continue to make an essential and ever-increasing contribution to the nation. The AAAI aims at the following:

- (i) To benefit Indian consumers and to protect their interests by helping ensure that advertising is honest and is good taste.
- (ii) To benefit the nation by harnessing advertising for the good of the country, its institutions, its citizens... to cooperate with the Government in promoting its social objectives and in nation-building.
- (iii) To encourage market and media research; to serve society by meeting its social responsibilities.

### **Implementation of the Ethical Code**

It is thus evident that many service providers have made an effort to inculcate ethical values by developing code of conduct for their businesses and marketing activities. However, an analysis of the marketing services provided by the service providers reveals a dismal and disappointing picture. Quite often, there is breach of code of conduct and use of unethical means in marketing of services. While some improvement can be noticed in the quality of services in sectors like telecommunication, banks, insurance, hospitals, transport, etc, the fact remains that many services are defective and disappointing inspite of competition as a sequel of LPG (Liberalisation, Privatisation and Globalisation.) In practice, ethical values are almost missing in the service sector. There is little consideration of human welfare in the marketing of services. It is all business and profiteering.

- (i) Doctors often resort to unnecessary hospitalisation, tests, drugs and surgery. Advertising by doctors is also not uncommon.
- (ii) Advocates mis-state the facts and conceal the truth. Service to humanity is secondary to them. They charge high fees and still prefer to defer the cases to the disadvantage of clients.
- (iii) Credit card agents use unethical means to create customers. They also conceal vital information
- (iv) Chartered Accountants use all possible wrong means to settle tax matters and in auditing accounts.
- (v) Financial consultants are charged with misguiding investors. As a matter of fact, unethical behaviour of financial consultants was a major reason of enactment of SEBI Act in 1992.
- (vi) Misleading advertising by bankers, insurance companies, educational institutions, travel and tour operators is also disheartening.
- (vii) There is use of aggressive marketing technique by insurance and bank agents particularly by those of the private owned insurance and bank companies. Undoubtedly, this irritates the customers.
- (viii) The use of tele calling is quite common which customers don't appreciate because of busy schedule in work and life.
- (ix) Complaints against railway employees, staff of airlines and private and public bus operators is very common.
- (x) Tourists, especially foreign tourists, are many times cheated and ill-treated by tour and travel agents and the hotel staff.
- (xi) The hidden costs and service charges are often concealed by bankers.

Thus, while code prescribed by service providers stress humanity, human welfare, social good, integrity and honesty, in practice we find that in marketing their services, the service providers often resort to unethical means.

### **Ethical Orientation in Services Marketing towards the Market Place**

It is pertinent to note that ethical issues become more relevant in the service sector as the customers generally find it difficult to evaluate services, especially when there are very little tangible clues. Thus, evaluation of service performances, both before and after purchase, may entail disappointment. Services like holiday entertainment, sporting events, restaurants, hair cut are high in experience attributes and can't be evaluated prior to service and customers must experience the service to know what they are getting. In services, high in credence, customers find it difficult to evaluate confidently even after the service has been purchased and consumed, such as in the case of education, legal services, complex surgery and computer repair.

#### **(1) Societal Marketing Concept**

While marketing strategies (like advertising, providing some tangible clues to customers, display of degrees by lawyers, doctors and other professionals, dress and behaviour of employees, appearance of furnishings, equipments and facilities, etc.) may be used to face this challenge, ethics play an important role in such a situation. Marketing men should not take undue advantage of this situation of the customer. Undoubtedly, from social and human points of view, there exists a relationship of mutual trust, confidence and goodwill between the service provider and the service recipient. There is a need of providing efficient services to the full satisfaction of the customers. This is also important for customer retention and loyalty. It is worthwhile to mention that the service providers must apply the societal marketing concept which requires a balance between three considerations—profits, want satisfaction and society's interest (human welfare).

#### **(2) Ethics in Advertising**

It may be added that as customers find it difficult to evaluate services they become more dependent on marketing communication for information and advice. Thus, arises the need for ethics in advertising by service providers. Advertising ethics require that (a) advertising is truthful, (b) agencies and advertisers provide substantiation of claims made, (c) advertising is in good taste, and the generally accepted standards of public decency are followed, (d) advertisers refrain from attacking competitors unfairly, (e) guarantees and warranties are explicit, (f) advertisements are not false or misleading, (g) claims are not exaggerated, and that (h) testimonials are genuine.

#### **(3) Ethics in Pricing of Services**

Ethical issues while pricing services also deserve attention. There is no denying the fact that customers often face great difficulty in understanding how much it is going to cost them to use a service. They are not sure in advance what they will get in return for their payments. Quite often, credence services invite performance and pricing abuses. Customers find themselves in a very embarrassing and vulnerable position when they don't know the benefits they get from service supplier, are not present when the work is being performed and lack the technical skills to assess the work done. Moreover, the complexity in pricing also encourages firms to engage in unethical behaviour. Ethical behaviour requires that there should be fairness in pricing strategy. There is a need of reconciling pricing schedules and management practices with customer satisfaction, trust and goodwill. Thus, the pricing should be fair, logical and clear. Service fees and expenses should be spelled out in advance.

#### **(4) Inculcating Human Value**

It may be noted that, in services marketing people have a vital role to play. People are the visible face of the service provider. The frontline employee (for example, a receptionist in a hotel) plays a crucial role in the service delivery process. The old saying that "people are your most important asset" is wrong. The better philosophy is: "Right people are your most important asset." Right people are people who have external excellence (through all managerial and leadership qualities, knowledge of marketing strategies and knowledge of material science) as well as internal excellence (knowledge of spiritual values). Thus, for implementing properly the code of conduct prescribed by service organizations and for an ethically acceptable behaviour, certain values must be inculcated in the employees. Some values suggested by S. K. Chakravorty deserve attention of marketing men (service providers): (a) The Individual Must Be respected. (b) Cooperation and Trust. (c) Jealousy Is Harmful for Mental Health: just as cigarette smoking is harmful for physical health. (d) 'Chitta-Shuddhi' or Purification of the Mind. (e) Top-quality Product/Service. (f) Work is Worship. (g) Containment of Greed. (h) Ethic-moral Soundness: To give peace of mind and promotes mental health. (i) Self-discipline and Self-restraint. (j) The Inspiration to Give. (k) Renunciation and Detachment from selfish results/rewards.



What Albert Einstein suggested should not go unheeded: “Try not to be a man of success but rather try to be a man of value.” To face the managerial challenges of the twenty first century, Peter Drucker says, more and more people in the work force - and more knowledge workers - will have to manage themselves. He writes: “ To be able to manage oneself, one finally has to know: What are my values? ... To work in an organisation the value system of which is unacceptable to a person, or incompatible with it, condemns the persons to frustration and to non-performance.” It is worthwhile to mention that to be effective in an organisation, one’s own values must be compatible with the organisation’s values. The values of the organisations and those of the people need not be the same but must be close enough so that they can coexist. Otherwise, the person will be frustrated and will not produce results.

There is an oriental saying: “Where the vision is one year, cultivate flowers. Where the vision is ten years, cultivate trees. Where the vision is eternity, cultivate people”. For customer retention and loyalty as well as for successful and socially acceptable marketing, service providers must have this type of vision.

### Conclusions

The service sector is growing tremendously. Services are varied and diverse. Employees of the service providers deliver services. Thus, management of human resources in an important aspect in services marketing. However, management of human resources must be value-based. Evaluation of services is an uphill task for customers. Thus, they rely on marketing communication for information and advice. Customers also don’t understand how much it is going to cost them to use a service. Quite often, credence services invite performance and pricing abuses. Service providers like advocates, doctors, chartered accountants, company secretaries, bankers, tour and travel agents, insurance companies and educational institutions are often charged with unethical practices. Thus, there is a need of developing and implementing a value system by the service providers.

A plethora of legislation already exists to ensure social welfare and justice. But, the legal measures cannot bring the desired results. The marketing men should realize that as producers, as customers, as distributors, as masses, as resources, human beings are numbers (statistics) but, above all, human beings are always human beings. Thus, human element must percolate the marketing area of business. Marketing is a social function and a social problem whose solution lies in social revolution. The social revolution is possible through change in social conscience. Change in social conscience is possible through making man conscious of the reciprocal benefits and responsibilities. There is great relevance of spiritual values as highlighted in the Indian scriptures. Service providers must think beyond customer satisfaction and retention. Services marketing activities must be based on philosophy of ethics, which calls for service to humanity. Only then, service marketing activities will be socially and ethically justified.

Service sector has a vital role in the accomplishment (by 2015) of the Eight Millennium Development Goals. Services related to health care can help in achieving three such goals—reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases. Educational institutions can help achieve two such goals—achieving universal primary education and women education and empowerment. All service organizations can directly or indirectly help in accomplishing goals of eradicating poverty and hunger environmental sustainability and promotion of global partnership for development. Of course, it is a difficult task and perhaps the greatest challenge before the service sector. *(This research paper was presented in the ‘National Seminar’ on “Services Marketing” organised by the Department of Commerce, University of Jammu, Jammu on 2-3 December, 2006.)*

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## Re-defining Commerce Education in India

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### Introduction

The fate of Commerce Education in India has changed in the last one and a half decades. In fact, Commerce Education started with a view to prepare the manpower requirements of the industrial world at large. As a field of study, Commerce Education is almost a century old. It was first started in India in the year 1889. In the pre-independence era, it was treated as a centre for attraction with limited objectives of providing clerical and accounting personnel with emphasis on training in typewriting, shorthand, letter writing and business methods which ultimately widen due to the growth in trade, commerce and industrialization and then became a part of the main stream of higher education in India. But in the context of rapid expansion and innovation of the business system coupled with competition in higher education, the importance of commerce education as a field of knowledge is degrading day by day. In some colleges and universities in India, this course is treated just like a dead course with few students enrolled in it. So, it is felt necessary to redefine this stream of knowledge and instil a new life on it.

### Commerce Education in India

Higher education system was expanded in India at a very fast pace. Before 1947, there were only 19 Universities and 27 colleges but at present India have more than 347 universities and more than 16,500 colleges. The investment in the infrastructure and manpower has also tremendously increased. With this passage of time, commerce education as a part of higher education explored to a great extent. The main objective of commerce education was to provide manpower with good knowledge of different functional areas of business so as to support the functional specialists in the business firms. Besides, few more objectives were also added to the objectives of commerce education like- encouraging the research activities of trade, commerce and industries, to conduct the educational programmes for teachers, persons in business and consultancy services for business firms and government agencies. Different groups of people have analyzed the feasibility of these objectives at the present context and on the basis of their suggestions a new areas are integrating day by day. Some of such Committees or Commissions (Shollapur, 2005) are highlighted here.

Firstly, the University Education Commission 1948-49 was constituted by the Government of India for analyzing the higher education and suggests the areas of improvement so as to cope up the national requirements. The Commission was headed by Dr. S. Radhakrishnan. It was suggested that the Commerce Education should be professional with more practical training.

Secondly, the First Five Year Plan (1951-55) has also emphasized the Commerce Education as a professional education and accordingly spelled out measures for professionalizing it further. The necessity of delivering lectures by industry experts and dynamic leaders in the university departments and colleges have been identified so as to provide proper industry interface with the commerce students.

In 1961, the Special Committee of Commerce Education was constituted by the Government of India under the chairmanship of Dr. V.K.R.V. Rao. The recommendation of the Committee was very relevant at the present context. The Recommendation emphasized that the commerce students be given special attitude such as development of personality trait, acquiring specialized knowledge that are serviceable in the field of commerce and industry.

Fourthly, in the Third Five Year Plan (1961-65) Commerce Education has been identified under the heading of Technical Education. Again in 1981, Mathur Committee reinforced the objectives of Commerce Education with the recommendation of proper training of the post graduate commerce students so as to suit for the key managerial positions in the business firms.

From the recommendations of different Committees and Commissions it may be concluded that Commerce Education has been passing through a process of transformation in itself. Commerce Education in India focuses on the following two areas:

1. Courses which are fully specialized in Accounting and Taxation
2. The general course, which one studies B.Com, M.Com and at most Ph.D. and so on.

The curricula of the specialized streams of accounting and taxation that provide the Degree of Chartered Accountancy, Cost and Works Accountancy, and Company Secretary are in good demands these days because of the increase in the business volumes, expansion of trade and commerce, integration of domestic and international financial markets. Due to cut throat competition, industries require the cost accountants for proper cost control and tax consultants. One of the private players in the field of education who caters such major changes in the market is the Institute of Chartered Financial Analyst of India (ICFAI). Different programmes related to accounting and finance is introduced like Chartered Financial Analyst (CFA), the Master of Science programmes in Accounting, Finance, Banking, Insurance etc. ICFAI has identified all these programmes as professional courses. The second area of Commerce education is the Bachelor of Commerce and the Master of Commerce and then finally to Ph.D. Programme. The prospect of getting job after completion of this course becomes very limited these days because of theory based course with no practical components.

### **Threats of Commerce Education in India**

1. **Privatization of Higher Education:** India has not yet clearly defined the role of state in Higher Education. The question still remains with us that whether state should involve in education or it should be left to private players. If we look around in some other countries of the world, we find that many of the well known and top ranking Institutions or Universities are run by private bodies. Few examples are Harvard University, Massachusetts Institute of Technology, Stanford University, New York University, Columbia University, Yale University, Northwestern University, Carnegie-Mellon University, Duke University, University of Chicago, Vanderbilt University, Syracuse University, Dartmouth University, and University of Michigan etc. Again on January 1, 1998 (Devendra Kodwani, 2002), University of Malaya, the oldest university in Malaysia, was corporatized and the remaining universities are likely to be corporatized. In this regard, the Government will be free from the burden of bearing the major operating cost of the Universities. The corporatized universities are allowed to borrow money, acquire or hold investment shares and securities, promote business firm, raise the fees of the students, increase the number of students enrolled, introduction of short term and long term courses which are demanded by the industrial sectors etc. In India also so far different state governments have passed Private Universities Act in the State Legislation. Through this the question of funding from the state has not raised. But the question of whether state will regulate these private universities or institutions still looms large. These private players concentrate more on the innovative programmes which are demanded at present in the global market. In India many private institutions are promoted by the business jargons like Birla, Reliance, Modis, Prestige, Kirloskar, Nirma and many others. Due to the opening up of the market and the implementation of WTO agreement in Education, state will not be able to avoid the private players in education. Rather the Government of India is in the process of finalizing the rules of establishing foreign educational institutions and their study centres in India. This will increase the level of risk in the traditional universities in India. The threats due to the emergence of these private players in the educational field are the decrease in the number of enrollments in the commerce stream in the traditional universities and colleges due to introduction of varieties of innovative courses, migration of good faculty from the government run institutions to private institutions, establishment of state of art infrastructure in these private institutions providing better comforts and facilities to students and faculty, introducing proper faculty orientation or training programmes etc. by these private players.
2. **Change in Technology:** The global business environment has taken a sea change in the last one decade giving a great blow to the traditional education system. The present day teaching – learning is fully technology based. Since the commerce education system at present cannot use the technological aspect widely, the dissemination of complete and up to the day information or knowledge is not possible. This gives threat to its future. The same happens in the business firms and even in some advanced Government Offices and Departments. The traditional office structure where many office assistants work under each boss or manager is no more. In those systems many of the commerce graduates could get placement for typing, office record maintenance, shorthand, business correspondence etc. But technology has replaced all these people that ultimately worsen the situation. Managers now communicate through internet and phone. This leads to the decline in the enrollment of students in this field of study.

3. **Change in Industry Requirements:** Due to advancement of technology and increasing interdependence of business firms in the global scenario, the manpower requirements of these industries have also changed. Industry requires a person of a totally different profile with very good technical knowledge, supported by managerial talent, attractive personality, good communication skill and good industry insight. A simple commerce graduate and or a post graduate face a lot of difficulties to fulfill all these criteria. Industries in fact search for a person who can work with the global mind set in a fully computerized work environment. This basically needs a different type of grooming of the commerce graduates inside and outside the classrooms. This poses a great threat to faculty and the institutions as well.
4. **Availability of Varieties of Courses:** Due to privatization of education, varieties of courses are offering as per industry requirements and global market demands. To these institutions the traditional universities and colleges have lost the prospective students of commerce. They use very attractive promotion strategies. For example, Rai University, Amity University, Delhi University, ICFAI, Manipal Academy of Higher Education and so many other Institutions started to offer innovative and market driven courses and cater the demands of the changing industrial scenario in the post reform era. In fact that education system without any social relevance in the present and future context is useless.

#### **Few Issues to be focused for Commerce Education:**

Keeping all these threats with relation to commerce education, it is felt necessary to re-focus to this century old stream of knowledge. We have to redefine it in the context of present and future oriented education system. Few of the issues which need to focus at the earliest for the improvements of Commerce Education in India are highlighted below:

- a) **Redefining the Course Curricula and Renew it Regularly:** The present course curriculum of commerce education should be restructured and upgraded as per the requirements of the industries. Commerce Education needs to concentrate on understanding the concepts deeply, identifying the probable applications of these concepts in the industries, markets and society at large. Besides, new areas of importance should be incorporated from time to time in the curricula taking reference to the industry experts. Basically, the course structure should be sent for review regularly to a group of experts that includes people from industry. We also need to identify new and innovative areas of studies based on the commerce education in the graduate and post graduate levels.
- b) **Well Defined Learning Objectives:** Each paper studying in different courses should have learning objectives. In the same way each course/programme should also have well defined learning objectives. The Commerce Education system in India needs to incorporate this idea of learning objective. The learning objectives will tell the students why that particular course or paper is taught and what type of basic skills, concepts and experiences are expected to gain at the end of the academic year or programme. This process will help the students in enhancing the right kind of input and skill. The well known and highly reputed universities/institutions of the world define the learning objectives of each subject and for each programme very clearly. So, it is easier for the faculty and the students to explore correctly the right action for achieving the right kind of knowledge and skill. If this process is done correctly it will help the students in identifying the right jobs.
- c) **Pedagogy:** Adult learning is a very a complicated task since most of the learners have preconceived ideas. So being a successful teacher means taking lot of pain. The teacher has to adopt techniques like experience sharing, audio- visual aid, seminars, presentations, role play as well as lectures in the teaching- learning process. The Commerce Education system in India lacks in these areas and it is necessary to improve upon as a priority.
- d) **Practical Training and Exposure:** In the post graduate level, the commerce education should introduce the components of practical training and exposure to the Departments of Commerce and Industries and Business Firms. It should be compulsory for the post graduate programme to write dissertation after proper training to the industries, trade and commerce related areas. Interactions with the industry experts, visits to different industrial establishments are also felt necessary. In the two years full time post graduate programme in commerce, the students should be allowed to visit the industrial units and understand it's working and corporate culture.

- e) **Life Skill:** In the globalised era, all business enterprises expect a perfect and competent manpower. A competent and technically skilled manpower may not be termed as a perfect one. To be a perfect employee, his/her technical skill and conceptual knowledge should be supported by many attributes like-positive thinking, good communication skill, ability to explore ideas, team spirit, leadership, capability of goal setting and career planning, power of expertise, presentability and so on. All these attributes are required for being successful in an interview and to become a smart candidate in the job market. The students should be given training for becoming a smart worker and not a hard worker. A smart worker is goal/task oriented. Industries need a smart worker now but not a hard worker. So, the present commerce education system needs to include the subjects of life skill as compulsory papers. It will increase their employability.
- f) **Forward Linkage of Commerce Education:** In India, so far, no professor in a college/university or the University Grants Commission defines the career prospects of the commerce students. Many of the students studying in this stream of knowledge are opting Commerce by default or by family pressure or by not getting admission in other streams like science, medicine, engineering etc. The few who really choose the commerce stream may also not be very clear about the goals/targets/career options and opening in front of her/him after the graduation or post graduation. Time has come to explain and promote all these issues very clearly to the students' community and the public at large. If someone is not aware about the future prospects of job and its employability after completion of a course, the chances of taking admission in that course will be very less. So, the faculty members and governing agencies should define very clearly the possible forward linkages of this stream of knowledge after higher secondary, graduation, post graduation and so on. It will help in attracting the students reviving the commerce education system in India.

### In lieu of Conclusion

India is facing major crises in higher education. Even after defining the necessary areas of improvements as priority the implementing and regulating bodies are not acting effectively. This has worsened the situation of the Commerce Education in particular and the higher education at large. Many Commerce Colleges and Commerce Departments in the Universities are now facing the problem of fewer enrollments of the students. The acute problems lie with the nature of courses and the way it has been dealt with without any up gradation as per the present day open market structure. These problems can be sorted out with the combined dedicated efforts from the Government, the regulating agencies, institutions and the teaching community at large.

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## Corporate Restructuring Practices in CPSUs -A Case Study of Steel Industry

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### Global Steel Industry and SAIL

Steel has long been recognized as a cyclical industry, characterized by a cycle of 3 to 5 duration. The Industry had gone through the most difficult years between 1998 and 2002 due to overcapacity, poor demand growth and declining tariffs. The difficult times prompted the Industry to cut costs, restructure its business and move up on the value chain for survival. According to Industry source, poor level of infrastructure and high transaction costs are major factors impacting adversely on the competitiveness of Indian Industry. Substantial reduction in tariffs and regular global boom-bust cycles have forced the industry, especially the Steel Authority of India Limited, Tata Iron and Steel Company and Rashtriya Ispat Nigam (Vizag Steel) to cut costs and upgraded technology. As a result the industry grew at much higher rates than in the previous forty years. And major Steel producers namely, SAIL, TATA Steel, RINL, Essar, JVSL, Ispat and Bhushan have gained considerable competitive strengths over the years. Even after fourteen years of liberalization, the Government's intervention in the steel business has remained significant with the continued dominance of public sector units in the supply of major raw materials and steel. The policy changes were not enough to exploit the entire growth potential of the industry. Moreover, their PSUs have been kept outside the purview of privatization. Above all, the Government has no policy in place for orderly development of the sector. The focus of the present research will be to study the existing position of CPSUs and suggest the effective measures to revitalize them.

To have an idea about performance of steel industry in India it is pertinent to review the performance of world steel industry. Over the years steel production around the world and its trade will help to gauge the performance of Indian steel industry. It is with this objective, the performance of world steel industry has been reviewed in comparison with Indian steel industry. During past twenty years steel production in India being 35 per cent of world steel production has been far below the satisfactory level. Reviewing the growth of world finished steel production for about past three decades, it has been observed that compound average growth rate of steel production has been at meager about 1.5 per cent. Trade of steel (exports) around the world have also not grown at a faster rate till the beginning of 90's as depicted by meager CARG of 2.7 per cent. It has grown up at a significant rate of 7.3 per cent during 90s. The production of crude steel has also not grown up at faster rate. China and Mexico have increased the production of crude steel at the rate of above 7 per cent during 1999-2000 over 1997-98. Many countries namely Germany, Italy, U.K., Brazil, U.S.A. and many more have registered a decline in the production of crude steel. Looking at the import export scenario of the steel around the world it is observed that countries like USA, China and some countries in the middle and far east have been major importers of steel. It is further observed from global steel demand and supply scenario that crude steel production will grow at an average rate of 5 per cent and economies like US, South Africa, Japan and some Asian countries (ex-Japan) will be potential markets for sale of steel. Looking at the overall performance of different countries with regard to production of steel, China, Japan and US have scored first, second and third positions followed by Russia, Germany, South Korea and others. India has been ranked at 8<sup>th</sup> position in the steel production in the world. In the region-wise world steel production Asia has taken a lead with the production of 7,256 thousand tones during 1999-2000 followed by Europe and North – America and others. In Asia, China, Japan and Korea have been the frontrunners in the production of steel.

In India production of stainless steel started at Alloy steel plant and Durgapur in late 60's. Production gradually increased to around 24 thousand tones per annum in mid 70's. During the end of 80's the Government changed its policy allowing the production of all type of steel in the secondary sector. New capacities were created and the production increased to about 170 thousand TPY in 1984-85. In 2000-01 the production further increased to about 750 thousand TPY. There are about 18 producers of steel in India and 17 small induction furnace units of two to three ton capacities. Sector wise consumption is found to be maximum in catering equipments followed by process industries consumption

and transport. At the export front India exported about 80 thousand tones of stainless steel in 2000-01 to Middle East U.S.A, Africa and Japan.

In the post liberalization scenario in India the steel Industry has been flooded with new investments worth \$ 7.5 to 8 billion. Indian production of crude and finished steel has been increasing on a year to year basis, which increased to 3,052 million tones in 2001-02. As per one estimate growth of steel production is predicted to the level of 45 million tones in 2010-11. With regard to finished steel scenario in India production was more than consumption and part of the production was exported also. This has been possible due to allowing the private sector units to manufacture steel. In the present scenario steel production is undertaken by public and private sector organizations but a significant proportion is manufactured by public sector giant organization SAIL and its associates. In the different products of steel, CR coils and galvanized products have maximum growth rate i.e. above 9 per cent.

### **The Role of PSUs and Effectiveness in Present Scenario**

The Public Sector has played a pivotal role in the economic and industrial development of India by providing capital, strong infrastructure, and modern technology, economies of scale and employment generation. It has attempted to implement the objectives of planning through reducing the regional disparities and checking the concentration of economic power. The public sector has been potent factors in the import substitution and export promotion, thus making India more self-reliant.

Judging the performance of public enterprises is undoubtedly a more ticklish problem, as compared to private enterprises. This is because these enterprises are required to fulfill a multiple of objectives, which are quite conflicting in nature. Moreover, their objectives have not been stated clearly so far. In the absence of clear-cut objective, there are difficulties in judging their performances. Profitability in term of return on investment alone cannot be the efficiency. However, they are expressed to give an adequate or reasonable return on investments made in the theory. The objectives of private enterprises are quite clear but this is not true of public enterprises. Even after so many years, we are still grappling with this issue and the government has not yet come forward with clear-cut objectives of these enterprises. In the absence of clearly designed objectives of these enterprises, it is indeed a great problem to judge their efficiency properly and correctly. Further, the achievement has to be viewed against the background of the multidimensional objectives of public enterprises and also the fact that these enterprises are functioning in different segments of industry and facing divergent constraints including those of location, non-availability of inputs like raw materials, power, fuel and infrastructure facilities, inherited industrial sickness from private sector, pricing restrictions due to public policy etc. The profitability of steel, coal and lignite, fertilizers, heavy engineering, textiles, telecommunication services and tourist services has recorded a decline.

The main point is that accountability of PEs at present is very weak. If detailed corporate plans and performance budgets are prepared keeping in view the well-known management methodology and techniques, and are discussed and accepted in advance, most of the problems would be sorted out, but this does not happen. Most of the PSUs are weak with respect to managing their resources of men, materials, machines and money. One is horrified while going through the report of the Comptroller and Auditor– General of India, Union Government (commercial), which gives a resume of the auditors report on Government companies. For example, according to an estimate over 40 PSUs did not have maximum and minimum limits and reorder levels of operation, or it is not effective, or no system of standard cost has been introduced or norms of consumption for major raw materials have not been fixed. In about 40 enterprises there is no system of ascertaining idle time for labor and machinery specifying the reason thereof.

It would be unreasonable to imagine that all is well in the public undertakings; there is much scope for improving the efficiency and working of public sector enterprises. The main points which need consideration are mounting losses, political factors influencing decisions about location, delays in completion and increase in cost of construction, over capitalization, price policy, use of more manpower resources than actual requirement, capacity utilization, faulty controls, inefficient management, and higher capital intensities leading to lower-employment generation. In brief, it may be pointed out that picture of the public sector generally painted by Federation of Indian Chambers of Commerce and Industry, Forum of Free Enterprises and such other organizations is too black. Most of the public sector enterprises are not functioning efficiently. The competitiveness of the private sector and public sector projects should act as the motivating mechanisms for improving efficiency in the both sectors. As the result of deliberate policy of encouraging public sector, heavy investments were made in the public sector, so as to facilitate the process of industrialization, by establishing

heavy and basic industries and create infrastructure of power, electricity and transport. But for the short span of five years (1968–74), the average rate of growth of investment was of the order of about 19 percent during 1980-81 to 1995-96, the growth rate of investments was still significant at 16.5 percent per annum.

Hence, the critical question arises: Will the Indian public enterprises be able to survive under the pressure that they currently face? The poor performance of some of our enterprises is, mostly due to substantial underutilization of capacity and at the same time we have still not been able to evolve a personnel policy for our public sector undertakings, which would recognize, attract, build up our reward for talent. The task of public sector enterprises management is indeed a difficult one as they are expected to harmonize the plans and results of the operations of their enterprises and do them with the large rational goals that would directly promote the economic well being of the community. It is those responsibilities, which distinguish most of public sector. The sickness in certain sectors of the economy is mainly due to the shortsighted policies of government, which render these units helpless. Some other non-financial problems are also there, like the role of labor, multiplicity of unions and the lack of autonomy.

Public enterprises in India are under unprecedented pressure. One major cause of this is the increasingly difficult public finance situation of the government and of local authorities. Take for example, the central government's budgetary support to finance central public enterprises plan outlays. Another major source of pressure on public enterprises is the new economic policy, with its focus on increasing competition through:

- (a) Relaxation of barriers to entry expansion for both Indian and foreign firms, as a result of changes in the rules of industrial licensing and direct foreign investment.
- (b) Large import due to reduced import duties.
- (c) Easier access to efficient technologies and other relatively less costly inputs.

A large number of public enterprises are doing very poor, but can be saved. Further, there is a group of profit-making public enterprises, which may face difficulties in the emerging economic environment. Take for example, those in the petrochemical sector. They are now operating in a regime of high import duties on the products they produce. This enables them to generate a value addition substantially higher than would be generated under low import duties. Wages and salaries account for a good part of this relatively high value addition with a part of the balance reported as profit. Will these enterprises be able to pay current wages and salaries and still report a profit in a regime of import duties ranging between say 5 percent and 30 percent? No, indeed they may be wiped out if they do not attain competitive advantage. Given the challenges that India faces on fronts of public sector finance and balance of payments, it has been pointed out that for public enterprises, profit is not the objective but the public good is the motivating factor. However, the need for making profits is recognized now and restructuring and returns have been undertaken thereof.

One of the main reasons of restructuring is the pressure of investor to deliver shareholder value. The increasing pressure to slash cost is also responded by restructuring the business and many Mergers and Acquisition have been taking place because of low valuation of companies. The consolidation of fragmented industries is also attempted through restructuring. Sometimes companies go for restructuring to undo certain bad managerial decisions. Thus, the reasons for restructuring can be summarized as, to cut cost, to achieve focus, to eliminate intra-group conflicts. Good companies normally work in this fashion. They get all the various dimensions right. They get their strategy right and make it consistent with their structure. They get their marketing, brand image, and main value proposition right. After all this you have to have a governance structure.

In spite of good intentions, all companies do not get success in restructuring the business. Some of the reasons why restructuring fails can be enumerated as, too late to wake up, no soul searching, active inertia, IR taken for granted, declining morale of employees, penny wise – pound foolish etc. So, good companies are those who can proper diversely and appraise consistently. The bad ones don't have it. In fact, if you look at it, most of the companies actually don't do so much. The few who do are extremely successful. All of this can be understand well in case of PSUs. In the context of present study several questions can be raised. Restructuring of any undertakings could be done in many ways and by following different methods.

### **Impact on Indian Steel Industry and Viability of SAIL**

Looking at the trend of steel exports from India, secondary producers have taken a lead. SAIL and RINL have also exported some basic products like bars and rods, structures and plates. TISCO and other producer in the private sector like JVSL, ESSAR and Lloyds Steels have not contributed much in export of finished steel during the last part of decades of 90's. In overall world scenario, the performance of India in the production of crude steel has been quite



satisfactory. Only problem observed is with regard to production and export of finished steel. Some important bottlenecks observed in this regard are lack of cost competitiveness, inferior technology, uncompetitive quality and poor infrastructure. Besides that trade and tariffs barriers as created by US and European Union are causing concern to all Indian steel exporters. Steel Authority of India Ltd. has been the major producer of crude as well as finished and stainless steel in India. Till the beginning of 90's this company was steel maker to the nation and only major exporter. Established in 1973 SAIL have five integrated plants, four special and alloy steel and Ferro alloy units and three subsidiary companies.

The government has issued a new set of guidelines on June 1990 to liberalize and rationalize the manufacture of steel and steel based products, remove unnecessary restrictions and promote minimum economic of scales of production. In July 1991, the government removed the iron and steel industry from the list of industries reserved for the public sector and also exempted it from compulsory licensing. The government also abolished price and distribution controls on iron and steel manufactured by integrated steel plants with effect from January 16, 1992. These developments have driven the steel industries towards adopting merger and acquisition strategy to grow.

The response to policy reform is already visible with a number of industrial houses engaged in setting up of new capacities. As a result, the crude steel capacity is expected to double from about 22.3 million tones in 1995-96 to 43 million tones in 2001-02 and further may go up to 57 million tones by 2005. As far as demand for finished steel is concerned, it is likely to grow to around 33 million tones by the end of the ninth plan (2001-02) and to 49 million tones by the end of the tenth plan (2006-07). These initiatives have helped India emerge as the tenth largest producer of steel in the world. The production of finished steel (including secondary producers) rose from 1.04 million tones in 1950-51 to 6.82 million tones in 1980-81 and 27.2 million tones in 1999-2000. Production of crude steel rose from 1.5 million tones in 1950-51 to 10.3 million tones in 1980-81 and 23.1 million tones in 1998-99. Increase in the production of steel in recent years has enabled India to emerge as an exporter of steel. In 1998-99, exports of steel amounted to 2.4 million tones valued at Rs.2, 509 crore.

Steel makers across the globe are busy in devising strategies to meet the challenges posed by the Mittal-Arcelor merger to the fragmented steel industry. They are looking at a mix of defensive options such as ramping up shareholding buying back equity, entering into anti-takeover pacts, as well as aggressive options such as acquisitions and mergers, amidst expectations of the mega merger triggering off fresh consolidation and new hostile takeover attempts in the steel industry. In India, the ball has been set rolling by Tata Steel, where the Tatas have decided to increase their shareholdings in the company from the present level of 27% as a safeguard against hostile takeover bid. Variants of what the Tatas are planning here are being contemplated by other large Steel manufacturers. Nippon Steel of Japan, which will be the second largest steel company in the world after the Mittal- Arcelor merger.

### **Trend Analysis of M&A**

There is immense need to examine the impact of M&A on corporate sector and on economy in general and on particular industry. The focus on core competence, market share, global competitiveness and consolidation being hastened by the foreign competition. The companies can only excel in their core competence. In order to survive and grow corporate houses have undertaken restructuring exercises and Merger and acquisition is one of the effective methods.

Merger refers to the merging of one company into another or two companies getting merged to form a new corporate entity. A merger is popularly understood to be a fusion of two companies. Acquisition or take over denotes a company acquiring controlling stake in another so that the acquirer can have management control over the other firm. Mergers are different from acquisitions. Acquisition implies that a company unilaterally relinquishes its independence and adapts to another firm's plans, while in mergers, all combining firm relinquish their independence and cooperate, resulting in common corporation. Generally, acquisition is the purchase by one company of a substantial part of the assets or securities of another. A study found out 71 mergers and acquisition during the span of 1994-2004. The trend of M&A started in the upward direction from 1993-94 and reached the maximum in 1998-99. Another significant factor observed in the survey is that, there has been 125 per cent increase in total number of mergers and acquisitions in 1996-97 over last year. In 1997-98, the growth rate of mergers and acquisitions increased by 44.44 percent. The increase in merger and acquisition activity during 1996-97 and 1997-98 periods may have resulted due to; (a) the slow down of the economy, (b) capital markets (both primary and secondary) have remained depressed for the past couple of years, drying up sources of investment funds for the industry, (c) apart from subdued capital market, small and medium corporate have found it difficult to access institutional funds. Banks have been cautious in lending due to high incidence

of NPAs (d) export growth has been sluggish, (e) several industries including steel have been subjected to competitive pressure from imports. These factors have squeezed the profit margins of the companies and restricted them to grow. As result, some of the large companies looked for mergers and acquisitions strategies to grow rather than adding capacity. This has resulted in increase in merger and acquisition activity in 1996-97 and 1997-98.

In view of the observations made as above some important suggestions with respect to global steel scenario and Indian Steel Industry may be: All players in Indian Steel Industry (Public and Private) have to work jointly to fight with the international competition prominently with regard to price and quality.

Keeping in view the total demand for all products of steel around the world it is observed that sufficient demand exists in economies like USA, Middle and Far East, China, South-Africa and Japan. Indian producers if expand the international marketing network could capture the significant portion of these markets. In the domestic markets also, SAIL particularly must go for marketing strategies as its competitors in the private sector have been following. Crude steel exports from India must be replaced by finished steel in this era of liberalization and global sourcing.

With regard to SAIL it has been observed that its five integrated plants have their independent integrated operations based on completely different manufacturing technology. Due to this fact company is not able to enjoy the economies of large-scale production. To lower down the cost of finished steel, company must seriously work towards replacement of independent and obsolete technology. SAIL has defined customers. With them also company is loosing significant market share. To expand its market SAIL, must come out with liberalized and proactive marketing policies in India and abroad. Indian steel exporters have been facing stiff trade and tariff barriers in international markets, particularly in US and G-15 countries after 1998 nuclear test. To fight out this situation Government of India must take up the matter at international level. India needs to move out of the price game and concentrate on offering high value quality services and solutions. With its skill and potentials, it can deliver great services. It can create much more wealth and can establish more sustainable business models. Companies don't waste capital, and learn to raise capital efficiently and cheaply. This is so that they can tap the global capital market. The global capital market is incredible deep. We don't have a lack of capital. We just can't distribute it properly. Politically, the power lies with the losers and not the winners. Thus, while doing corporate restructuring we can de-merge it and make separate units. We can make them stand on their own. The slowly phase it out by letting the unit die a natural death since it no longer able to sustain itself. Indian companies have to become truly global by investing in mining and steel making facilities worldwide. With better approaches for organ sing global level production marketing products, promoting technology and managing workforce, Indian companies could grow much faster than today.

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## Global Industrial Relations Scenario: A Glimpse

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The problem of industrial relations is common in almost all the industrially developed countries of the world. Every country attempts to solve the problems of industrial relations according to its own ways and methods. There can be no universally accepted approach for the resolution of the problem of industrial relations as socio, political, economic, and technological factors differ from country to country. Moreover, there is also a need to appreciate two distinct features about international practices in Industrial Relations. Firstly, it is difficult to compare industrial relations system and practices across national boundaries. e.g. collective bargaining in US is understood to mean negotiations between a local labour union and management, in Germany and Sweden the collective bargaining refers to negotiations between employers' organization and trade unions at the industry level. Secondly, industrial relations practices have its historic origin in countries and differ considerably (Bhatia, 2006). It is the expression of the society in which labour relations operate and of the power relationships between different interest groups. However, today the business is not confined to one place only. The surge of MNCs has necessitated the understanding of industrial relations practices in different countries for the smooth functioning of operations. It has become necessary to appreciate the great diversity of circumstances in the different regions to exploit the opportunities of LPG model effectively. Thus the need to study industrial relations practices beyond its origin arises, whenever a new unit or acquisition of existing unit in a foreign country is planned. This is with this objective in mind that industrial relations scenario in some countries were studied. Out of five continents, eight countries from four continents of the world were selected. The different industrial relations model practiced adopted by these selected countries for the promotion of harmonious relations are presented in the forthcoming paragraphs.

### **Australia-A High Degree of State Intervention**

There has been a high degree of state intervention in the Australian labour market. The federal system of employment relations of Australia is based on conciliation and arbitration. It encourages employees and unions to discuss, negotiate and settle matters related to pay and conditions. Conciliation has always been the greater part of the day-to-day work of commissioners. The process of arbitration is compulsory and only a registered trade union is in a position to initiate an award-making process by bringing a dispute to the arbitration. One of the most distinctive features of Australian industrial relations is the major role of industrial tribunals in settling disputes and fixing the terms and conditions of employment i.e. there is compulsory third party intervention. Arbitration system has given institutional support to trade union movement in Australia. Another feature of industrial relations system in Australia is- individual employment relations system and collective industrial relations system. Individual employment relations system is based upon the contract between the employer and employee regardless of the presence or absence of collective industrial relations. It is governed by Work Place Relations Act, 1996. While, Industrial Relations Act, 1996 relates to the collective industrial relations. It has been formulated with consideration for the needs of all relevant parties and following extensive consultation with them. The Australian industrial relations system has encouraged collective industrial relations. Employees participation system in Australia is voluntarily and do not have any legislation either facilitating or prescribing participation process in decision-making. The industrial relations act recognizes industrial action as legitimate in some circumstances. A union has to register under the commonwealth conciliation and arbitration act and is mandatory. Then only they could obtain legally enforceable award in case of industrial dispute. By registering unions could also negotiate before industrial tribunal. The recognition of trade union is also officially required.

### **Canada –Existence of Tight Statutory Structure**

Canadian labour legislation has created a tight statutory structure regulating every aspect of union-management regulations. The legal structure owes much to the model of U.S.Wagner Act. The Wagner Act model recognized the

right of employees to organise themselves and bargain collectively with their employer. It also prohibits those activities of employer which interfere in the employees' right of joining trade unions and doing collective bargaining. Administration of labour legislation is done by three institutions, namely, Labour Relations Board, Ad-hoc Arbitration Board, and the Courts. So, government plays a major role in managing labour relations through its various legal organs of legislature and judiciary such as Labour Relations Board, Ad-hoc Arbitration Boards and the Courts. Compulsory conciliation procedures have found much favour in this region. Laws for forming and recognition of unions are expressly framed by Canadian labour legislation. However, legislation provides a much less cumbersome certification procedure and goes further in recognizing the legitimacy of union security provisions. A union acquires exclusive bargaining rights after obtaining a certificate from labour-board. For this purpose union has to prove its majority through simple evidence of membership. The legitimacy of arrangements that union negotiates for its own financial security are expressly recognized by Canadian labour legislation. Canadian legislators have gone further in extending collective bargaining rights to public sector employees. Collective bargaining structures for public employers are better developed in Canada than in U.S. The primary responsibility for the administration of Canadian collective bargaining legislation lies with the labour relations boards. These administrative tribunals have jurisdiction over most aspects of the collective bargaining relationship. The resolution of grievances arising from collective agreements is the responsibility of boards of arbitration constituted by the parties on an ad-hoc basis. Disputes relating to the interpretation and administration of collective agreements are being resolved through compulsory grievance arbitration. A formal structure comprising labour boards, arbitration boards, and the courts exist for the same. Strikes and lockouts for the purpose of gaining recognition or for any other purpose are expressly prohibited.

### **Japan- Co-operative Employee & Employer Relations**

Japanese industrial relations system is one example of cooperative employee-employer relations in an industrialized country. The peaceful industrial relations was not one of the original feature of Japanese system of management but is shaped after a severe struggle between workers and employers during industrialisation. Japanese labour unions are organised within individual enterprises. Most enterprise unions belong to a federation of unions in the same industry. These industrial unions are in turn grouped into a number of national confederations. The majority of labour unions in Japan are enterprise-based. Enterprise unions are autonomous and it is entirely up to the union itself to which an individual adheres to the directions and regulations of its industry union or national confederation. The enterprise-based labour unions (Unity Unions) are affiliated with industry-based unions which in turn are members of national centres. There is a mandatory system of union recognition. The unions are recognised at the company level and not along craft or industry lines as is the case of U.S. and Europe. The right to recognition and bargaining is given to all trade unions without qualifications. According to Trade Unions Act 1949, a refusal by the employer to recognise any such trade union by refusing to bargain with it, constitutes an unfair labour practices. In such a case of union's application to a labour relations commission for procedures against an employer's unfair labour practices, it has to prove its independence and democratic character. Voluntary collective bargaining has emerged as a major tool for bringing industrial peace in Japan. Japanese labour-management joint consultation system has no legal basis; it is established on the basis of individual labour-management agreements and practices and so varies from company to company. Under this system, representative of employees from each level of company meet regularly with their counterparts in management to exchange information about company policies, production schedule, changes of shop floor practices, and so on. Further, labour management consultations on an industry-wide level are held in a number of sectors including textiles, ship-building, automobiles, electric power, shipping, steel, and electrical machinery. They take the form of regular meetings to express views on industry issues. The strikes in modern Japan have become almost negligible. Japanese unions tend to exercise restraint on labour disputes in order to avoid damage to their firms' competitiveness as any decline in a company's performance has an impact on the working conditions and welfare of the union members due to the presence of enterprise union system.

### **France-Active Political Influence**

Industrial relations in France are characterized by a trade union movement relatively membership-wise weak, yet politically very active and influential. Labour relations in French today are less confrontational than in the past. However, the role of collective bargaining is much more than to fill gaps which have been left in legislation. Collective

bargaining constitutes a more flexible instrument of industrial relations and during the past 20 years it has experienced a continuous growth in use and increasing importance in industrial relations field. So, individual labour contract also play a prominent role in relations between the employer and employee. Statutory laws play an essential role in French industrial relations system. The strikes are not legally prohibited as there is no law prohibiting strikes. Aggressive picketing by striking workers is not protected by law. Striking workers can be dismissed by the employer after meeting contractual obligations i.e. reverence payments. Most disputes are settled through negotiations. The absences of a peace obligation, the freedom for unions or groups of employees to engage in industrial action at any time, and the failure of legal procedures for the resolution of conflicts combine to produce a high level of industrial conflict. Recognition of union is officially required. Recognition of the union is based on independent status, and membership reputation of trade union leaders. France has one of the most effective welfare systems in the world. French law also specifies in great detail the provisions of collective bargaining agreement. Working conditions are negotiated between employers and employees in each sector and are set by state-backed collective bargaining agreements. There is no compulsory arbitration system in France. In France, labour codes provide to establish enterprise committees in all units employing 50 or more employees. They have advisory and administrative function. Workers' participation in management has legal sanction.

### **United Kingdom- A Tradition of Voluntarism**

British industrial relations system rests on three distinctive features. Firstly, the tradition of voluntarism; secondly, the representation of workers through trade union officers at work place in the form of shop stewards; and thirdly the organisation of trade union membership along occupational rather than industrial lines. Government does not interfere in the collective bargaining. Under this non-intervention principle, state regulation of industrial relations is confined to creating a (modest) legal framework within which private individuals and business can conclude agreements. Voluntarism in industrial relations is a long tradition and is well supported by the trade union. About 75 per cent of the employees have their terms and conditions of employment determined by it. Mediation is voluntary. Trade Union Act, 1984 makes strike legal only if union members have voted it in advance. If strikers do not hold a ballot, they will lose immunities from civil action. Employers' have freedom to dismiss workers taking part in unlawful strike under Employment Act, 1990. The legal definition of the trade dispute is that it must be between employees and their own employer, and it must be about terms and conditions of employment (i.e. not political). There is a voluntary system of trade union recognition in the country. But, a trade union has to show independent status to get the recognition. Once a union is recognised, it is entitled to receive business information for collective bargaining purposes. Trade union leaders get special protection for pursuing union activities. However, shop stewards do not get legal protection. Law says a little bit about workers' participation. However, there are certain rights for consultation and information regarding issues such as redundancy, safety and collective bargaining. There has never been any legal right to picket but the practice has not been considered as unlawful in the pursuit of a trade dispute as long as the picketing do not cause a breach of peace.

### **Germany- Co-determination**

Germany is one of the top ranking industrial nations of the world and here most of the workers are employed in industrial sector. Industrial relations in Germany are cast in legal framework. German government has regulated issues like social security, health care or vocational training. However, social partners are free to set rules through collective bargaining. Collective bargaining is a private law contract and compliance is legally enforceable. Strikes are restricted during pendency of collective bargaining agreements. A large number of issues are left for regulation through collective bargaining. Trade unions are organised on the principle of one industry-one union. This means that trade unions enroll workers and employees of entire industrial, commercial or other economic sectors regardless of the kind of work they do. Unions are not connected with any particular party. The Recognition of Trade unions is officially required. Union representatives get paid leave for union activities and get special protection. Unions are barred by law from negotiation at company level. This is the task of works councils, whose members are mostly union members. Unions are not permitted to contribute funds directly to any political party. But the unions have the right to appoint officials to government boards and agencies, such as the labour courts, and the social security, post offices and rail road boards. German constitution also gives employers the right to form employers' associations. These associations are protected and controlled under the collective bargaining agreement act. German law differentiates between disputes over rights and over interests. Strikes are legal if only over interest disputes. So, political and sympathetic strikes are unlawful under the

constitution. Labour courts have jurisdiction to hear disputes relating to labour agreements and also over the interpretation of labour legislation. Complaints may be brought by individuals as well as by collective groups. In Germany, there is a provision for compulsory conciliation procedures. The Works Constitution Act, 1972 defines the regulations for industrial relations at the place of work. The right to form trade unions and employers' associations is anchored in Article 9 of German constitution called Basic Law. The right to strike and lockout is guaranteed, but it is practiced more seldom in Germany than in other countries. Germany provides the best example of successful implementation of workers' participation in the form of co-determination. A large number of issues are left for regulation through collective bargaining. Collective bargaining and workers' participation are more or less integrated.

### **United States of America- A Rare Phenomenon of Workers' Participation**

American industrial relations have been described as adversarial, as a relationship of confrontations leaving hardly any place for workers' participation or union activities in the firm other than grievance procedure. There is collective bargaining on wage issues and now union recognition has been understood by both the parties. Collective bargaining generally takes place at enterprise or plant level. Moreover, the structures of local unions are autonomous as compared to Europe and India. Individual employees represent their own interest in collective bargaining. Terms of employment are also settled through collective bargaining. This system has worked extremely well in resolving some of the most difficult problems of employment relations. The role of government is restricted. The focus of bargaining is on wages, hours and working conditions. Enterprise level grievance handling procedure and interpretation of collective bargaining clauses are set under agreements. Jointly negotiated grievance procedure, which is a part of the collective bargaining process in USA has contributed to successful administration of contracts. Additionally, agreements regarding labour management contracts are legally binding documents. There is a formal support of law for union recognition for collective bargaining. Further, registration is not a pre-requisite for recognition in USA. Trade Union is secured under encouragement and regulation of government. Strikes are quite often and demands cut deeper into individual enterprises revenues. Workers' participation is not legally supported and so is rare. Non-union firms are still preferred by most managers.

### **India- A Prominent Role of Government**

The Indian industrial relations model is based on the free enterprise-cum-planning-cum-growing public sector-cum-parliamentary democracy model of growth. This model is a product of conflicting consideration. The existence of parliamentary democracy, on the one hand, demands a free functioning of the trade union and the employers' organizations; planning and the requirements of a speedy industrial development, on the other dictate an extensive regulation of their behaviour. The entire model has centered around the basic issues of (1) how to reconcile the fundamentals of the workers and their organization to use collective bargaining with the accompanied risks of strikes and lockouts to the needs of the economic planning; and (ii) how to reconcile restrictions on rights to strike and lockout with the requirements of a liberal democratic society. The three major important pieces of legislations, namely, Trade Unions Act, 1926; Industrial Employment (Standing Orders) Act, 1946; and Industrial Disputes Act, 1947 have played a vital role in shaping Indian industrial relations system. These acts have interacted upon each other to produce a distinct Indian system (Ramaswamy and Ramaswamy, 1981). Industrial Disputes legislation in India, one of the most important legislation, has in general followed the Australian pattern since 1947 with certain substantial differences with regard to machinery for Conciliation, Arbitration, and Adjudication. The collective bargaining in India is at enterprise or industry level. Due to which enterprise unions or plant level unions are autonomous. Individual employers and /or industry employers together represent their own interest in collective bargaining. Government laws on the scope and content of bargaining are on all areas of labour matters. Government plays a big role in settling actual terms of employment. But, there is no formal support of law for union recognition for collective bargaining. It is voluntary. However, some states like Madhya Pradesh, Maharashtra etc. have framed their own laws for union recognition under the Maharashtra Recognition of Trade Unions and Prevention of Unfair Labour Practices Act, 1971. Also, labour management contracts are mutually binding unless registered with labour department. Moreover, grievance handling procedure is set up at enterprise level under Industrial Dispute Act. Strikes often occur at enterprise level. Workers' participation in management is also on voluntary basis and hence has no legal sanction.

A brief analysis of Industrial Relations practices adopted by different countries depicts the existence of disparity of circumstances in different countries. In the regions, such as, Australia, India, Canada government play a prominent

role in regulating the relations between employer and employee. While Japan displays a best example of joint consultations between management and employees for the determination of the terms and conditions of employment. In France the political involvement in the form of trade union can be seen while UK rests on voluntarism giving less scope for state intervention. The major attribute of Germany industrial relations is workers participation in management which is a rare phenomenon in USA. All this diversity has resulted in shaping different attitudes, and perceptions of Management, Government and Employees toward each other. Consequently, a large difference exists across the countries regarding the regulation of employer and employee relationships. The knowledge of these assorted industrial relations practices may facilitate in dealing with individual situations of different countries. A proper understanding of this can enhance the employment quality and skills in foreign affiliates which may facilitate in communication and constructive negotiation and can bridge the conflicting objectives and lead to domestic as well as long-term foreign investment.

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## Promotion of Self- Employment through Entrepreneurship Development Programs

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Promotion of self-employment has become a matter of great concern for all developed and developing countries all over the world. Entrepreneurship Development Programs (EDPs) have been considered as an effective instrument for development of entrepreneurship in the country. Entrepreneurship development programs help persons to acquire necessary skills and capabilities necessary for set up a new enterprise. It deals with inculcating entrepreneurial traits, into a person, imparting the required necessary motivation, building the entrepreneurial attitude and sharpening managerial skills. The process of entrepreneurial development incorporates equipping a prospective entrepreneur with institutional support required to set up and run the enterprise successfully. Entrepreneurship development programs help in accelerating the pace of economic development, reducing regional disparities by promoting entrepreneurship in rural and backward areas, motivating first generation entrepreneurs, creation of employment opportunities and improving the standard of living of weaker section of society.

### Course Contents and Curriculum of EDPs

The course contents of EDPs are selected in line of its objectives. The training program is of six-week duration. It consists of the following inputs:

**1 General Introduction to Entrepreneurship:** First of all participants are exposed to a general knowledge of entrepreneurship such as factors affecting small-scale industries, the role of small-scale industries, the role of entrepreneurs in economic development, entrepreneurial behavior and the facilities available for establishing small-scale enterprises.

**2 Motivation Training:** Motivation training inputs aim at inducting and increasing the need for achievement for participants. Motivational inputs include psychological games, tests, goal setting exercises, role-play etc. Efforts are made to inject confidence and positive attitude among the participants towards business. It ultimately tries to make the participants to start their own business enterprise after the completion of the training program. In order to further motivate to the participants, sometimes-successful entrepreneurs are also invited to share their experience in setting up and running a business.

**3 Developing Management Skills:** Running a business, whether small or large, requires the managerial skills. Since a small business entrepreneur cannot employ management experts to manage his/her business, he/she needs to be imparted basics of essential managerial skills in the functional areas like finance, production and marketing. Knowledge of managerial skills enable entrepreneur to run his/her enterprise smoothly and successfully.

**4 Support system and Procedure:** The participants also need to be exposed to the support available from different institutions and agencies for setting up and running small-scale enterprises. This is followed by acquainting them with procedure for approaching them, applying and obtaining support from them.

**5 Fundamentals of Project Feasibility Study:** Under this input the participants are provided guidelines on the effective analysis of feasibility or viability of the particular project in view of marketing, organizational, technical, and social aspects. Knowledge is also given about how to prepare the 'Project' or 'Feasibility' report for certain products.

**7 Structural Arrangements:** Training inputs also aim at familiarizing the participants about proposed structural arrangements for the business or industrial unit. They should be given adequate information about government policy regarding development of industries especially with regard to small scale industries, registration and licensing procedures, forms of organization like sole trader ship, partnership, private company and public company, institution set up etc.

**6 Plant Visits:** In order to familiarize the participants with the real life situation in small business, plant visits are also arranged. Such trips help the participants know more about an entrepreneur's behavior, personality, thoughts and aspirations. These influence him/her to behave accordingly to run his/her enterprise smoothly and successfully.



**Phases of EDPs:** The EDP consists of three broad phases:

**1 Pre-training Phase:** It comprises policy issues related to the objectives of the program, laying down the criteria for success, selection of trainers, and development of training material for different levels of applicant.

**2 Training Phase:** It centers on the training methodology, use of training material, trainer-trainee relations, and coordination among faculty from different development institutions.

**3 Post-Training Phase:** This consists of making available necessary information, counseling and support to the entrepreneur in the enterprise-building efforts.

It is notable that every EDP has to pass through these three phases and each phase involves considerable amount of work. Any deficiency in these phases can affect the outcome of the program.

### Organization of EDPs

At present various national and state agencies are engaged in organizing EDPs for the first generation entrepreneurs. These agencies are: National Institute of Entrepreneurship and Small Business Development (NIESBUD), Entrepreneurship Development Institute of India (EDII), Small Industries Development Organization (SIDO), India investment Center, National Institute for Small Industry Extension and Training (NISIET), Hyderabad, Small Industries Development Bank of India (SIDBI), Technical Consultancy Organizations (TCO) etc.

### Evaluations of EDPs in India

The success of the EDPs is evaluated in terms of the number of trainees launched their ventures after completion of training program and changes in the entrepreneurial behavior, i.e., development of achievement motivation among the trainees. However, EDP suffers on many counts, be it the trainers, the ED organizations, the supporting agencies and the state governments. In spite of the spurt in EDP activity, it is observed that by and large efforts have remained limited to certain areas and the approach in general has been somewhat haphazard. The programs conducted by various agencies vary in duration, selection procedures, course contents etc. The contribution of EDPs varies uneven among regions. They are presently operating in a few states effectively. Their dispersal to rural areas is not up to the mark. There are many areas, which have remained backward. Lessons learnt from many EDPs suggests that enough attention has not been given to streamline and coordinate all activities related with program to get the maximum results. Moreover EDPs are costly affair now days. These programs have fancy budgets. Estimates suggest that they ranged from Rs 3 lakhs to 5 Lakhs. In many cases, organizations running EDPs lack sincerity and commitment in running the program. EDPs are used as a means to generate income for the ED organization. Selection of wrong trainees has also lead to low success rate to EDPs. The passive attitude of supporting agencies like banks and financial institutions has also served as stumbling block in the success of EDPs.

### Suggestions to make EDPs more Effective

1. The regional variations should be taken into consideration in designing EDPs.
2. The programs should incorporate more practical contents.
3. Effective support system should be linked with EDPs for better results. Various institutions should be associated with the program.
4. Participants should be selected carefully Those who have some business experience, skills and education should be preferred
5. A token fee can be charged from the participants to ensure their commitment towards the EDPs.

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## Role of Promotional Campaigns in Brand Success

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### Introduction

In the present scenario of globalization & liberalization, the corporate enterprises are spending millions of rupees on promotional campaigns like personal selling, publicity, advertising, sales promotion etc. Now the following questions arise: Whether Promotional campaigns are required? What is the relationship between promotional costs and the brand image? How many resources should be invested to build up a corporate brand? What promotional strategies must be adopted by the enterprises to build up their corporate brand?

A brand is a complex symbol that conveys different meanings like attributes, benefits, values & even the culture of a corporate enterprise. In other words, Brand is an intangible asset build by the business enterprise by investing large amount of resources which is used as a Strategic weapon to attain a sustainable competitive advantage. In Marketing, a brand is the symbolic embodiment of all the information connected with a product or service. Finally, a memorable and trustworthy brand reinforces customer loyalty. A brand is a name, term, sign, symbol or design or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Branding on the other hand is the process of finding and fixing the means of identification. Branding is more than product recognition or a simple logo. It is the over all intellectual and emotional impression people have when they think of your company and its product. It is a strong and consistent message about the value of your business. Brand building is an ongoing business strategy that has an easy-to-measure cost in time, money, and effort. Its value, on the other hand, is harder to establish because it involves measuring emotional associations that may not immediately translate into revenue. Branding is an essential element of success. However, it should be reinforced during times when business is booming and when sales are slower. Branding is a combination of everything which the company uses to present itself like professionally designed materials (logo, ads, stationary etc), excellent customer service, a strong & professional website and advertising. Finally, Branding is not what you say about your company and products; it's about your customer's perception of your company and products. To strengthen your brand, make sure you can answer the following questions: What do you do that is different from anyone else? If you can't answer these questions, you don't have an effective brand.

Advertising, sales promotion, publicity, public relation are the most efficient tools available that can be accessed by a marketing manager to identify its products and services among competitors.

In such a scenario some important questions would be: (i) How long a brand should be supported after launch? (ii) How long to wait to take stock of success after the brand has been launched? (iii) How long should the brand survive in the market to be counted as a success?

A product may fail due to changing duration of consumption of the product, evolving new occasions for the use of the product, changing sharing habits of the product, changing buying habits of the product, doing new things, changing the frequency of consumption of the product. Brand success is the ability to retain a reasonable market share despite market redefinitions.

### Review of Literature

Kumar (2005) explains the brand perception of the consumers and also how the Promotional tools are used to influence their perception. Balasubramanian & Kumar's (1997) explains how the change in the promotional efforts by the corporate enterprise affects the sales of the enterprise. In simple words it enables the business enterprise to establish a trade off between the promotional expenses and the desired sales. Chunawalla and Sethia (2005) explain the various ways in which the advertising is used by the businesses to position their offerings as well as themselves and also suggests the amount of resources which the enterprises should invest to enhance the level of their business. Moorthi

(2006) explains the concept of brand & brand building and also explains the concepts like brand equity, brand success, brand ambassadors etc.

An article published in the Business magazine 4Ps (2005) explains the relevance of a brand and brand image and how it influences the consumer perception. An article published in the business magazine PITCH (2006) explains the relevance of advertising and its impact on the competitors and the competition and enables the marketers to find how they can make the effective use of advertising to build up their corporate brands.

### Objectives of the Study

- (I) To determine the Promotional spending by different corporate enterprises.
- (II) To study comprehensively the promotional campaigns of various corporate enterprises.
- (III) To assess and measure the effectiveness of various promotional tools used by the companies to build their corporate brands.

### Scope & Relevance of the Study

Branding being a core component of marketing has emerged as an indispensable tool in hands of the marketers to attain a sustainable competitive advantage. This study focuses both on Promotional Campaigns and Brand Building; it also visualizes how the business enterprises use promotional tools to build up their brands. This study would enable the corporate enterprises to know a trade off between the promotional expenses and the resulted brand image and thus determine how promotional mix affects the corporate image of a brand in the market.

### Promotional Spending by Banking Industry (2002-2004)

This data reveals the fact that the Banking industry is spending millions of rupees annually on promotional campaigns like Advertising, Publicity, Sales Promotion and Public relations to position themselves as Power Brands in the minds of the consumers. However, the corporate enterprises should also aim to formulate an optimum Promotional Mix to build and strengthen their corporate brands.

**Table 1: Promotional Spending by Public & Private Sector Banks**

Rs crore	2002-03	2003-04	% Change
ICICI Bank	58	69	18
State Bank of India	34	67	96
HDFC Bank	18	37	112
Bank of Baroda	9	24	155
Canara Bank	10	16	64
Union Bank	10	15	43
Corporation Bank	8	11	41
Punjab National Bank	8	11	38
UTI Bank	8	11	43

Source: PITCH, December 15 – January 15, 2006.

### An Analysis of Promotional Campaign by two Corporate Enterprises: Motostar & Pepsi

#### MOTOSTAR: Case Study

**Campaign Objectives:** (1) Create buzz before the official announcement of the new Motorola brand ambassador. (2) Run a contest to guess the new MOTOSTAR by showing visual & audio clues. (3) Seamless integration of the promo on web & wireless.

#### Results and Summary

**Web:** 5.3 million impressions served in 3 weeks which resulted in 74,976 interactions; 40,590 unique visitors on the website; 7,337 total Registrations; 18 % Conversion Rate (of the Unique Users).

**Mobile:** Total number of hits: 92,572; Total number of Unique Users: 45,278; Total People who referred the Promo to Friends: 5,983; Total Referrals: 20,116.

**Campaign Summary:** The MOTOSTAR Promotion Performed extremely well and managed to create intrigue and excitement over who the new MOTOSTAR celebrity is. Both mediums – web and wireless delivered high levels of engagement and curiosity about the new MOTOSTAR.

Source: <http://in.solutions.yahoo.com/new/pdfs/motostar.pdf>

### PEPSI: Case Study

**Campaign Objectives:** The objective, like in the offline world, was to create intrigue and evoke curiosity “What is Pepsi T.V?” The campaign had to be in sync with Pepsi’s offline initiatives and was rolled out in 2 phases Teaser and Launch.

**Results and Summary:** The results of the campaign were overwhelming. Both the Teaser and Launch phase got an average CTR of over 2 %.

#### TEASER PHASE

Total Impressions:	4.80 million
Total Visits:	103,676
Average CTR:	2.15 %
Entries:	23,699
Conversion:	22.85 %
Entries on WAP:	7324

#### LAUNCH PHASE

Total Impressions:	16.72 million
Total Visits:	340,708
Average CTR:	2.03%

Source: <http://in.solutions.yahoo.com/new/pdfs/pepsi.pdf>

Note: CTR (Click-Through Rate/ Ratio), WAP (Wireless Application Protocol)

**Campaign Summary:** The Pepsi T.V campaign on Yahoo! was a resounding success with over 4 Lakh visitors to the Pepsi zone. The Teaser and Launch videos were viewed over 35,000 times. Thus, we conclude that Promotional campaigns like Advertising, Sales Promotion, Publicity and Public Relations do facilitate the creation of a brand, ensuring its existence, enabling it to fight the competition as well as the competitors, create brand equity over a period of time and finally resulting in Brand success. However, on the other side it involves a huge investment as well as costs thus increasing the financial liability of the corporate enterprise.

Finally, the present study supported by the relevant data about spending of the corporate enterprises concludes the corporate giants should try to achieve a trade off between the cost involved in carrying out such promotional campaigns and resulted benefits which is obviously in the form of a brand success.

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## IPO Scam in India: A Case Study of Yes Bank

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“We have identified the culprits who perpetrated the scam in both the issue (YES bank and IDFCs). I am told that it is the same set of players and individuals- four or five individuals, same lead managers and the same couple of bank branch manager who are involved.”- **Mr. P. Chidambaram, Finance Minister, India in January 13, 2006.**

“I am a genuine investor being victimized.” - **Shreyans Shah, MD and Publisher of Gujarat Samachar clarifying his position in the scam.**

“It is a matter of serious concern affecting the interests of common investors. Such incidents lead to erosion of investors’ confidence and immediate steps need to be taken to restore confidence in the primary market system.”-**Mr. Prem Chandra Gupta, the Company Affair Minister, Government of India.**

### Introduction

Market was shocked on Dec 14<sup>th</sup>, 2005 with the news coming in the market that Security and Exchange Board of India (SEBI)-Capital market regulator in India, has uncovered scam in the YES Bank Initial Public Offer (IPO) allotment and has banned 13 investors from trading [1]., SEBI, unearthed a large-scale multiple application case in the YES Bank IPO and banned 13 investors from trading in the bank’s shares with immediate effect. These investors manipulated allotment of shares by opening more than 7,500 *benami* depository accounts. They gained Rs 1.7 crore by this manipulation on the first trading day of the IPO, according to a SEBI interim order issued on 15<sup>th</sup> Dec, 2005. SEBI also referred the case to the Reserve Bank of India - Apex level Financial Institution in India, seeking investigation into the role of the Chennai-based Bharat Overseas Bank Ltd and Vijaya Bank in opening the bank accounts of these *benami* entities and funding their IPO applications. Actions are being taken up against the malpractices of IPO issues but still such manipulations are continuing in the market.

### The Modus Operandi

According to SEBI report, an investor named Ms Roopalben Panchal applied for 1,050 YES Bank shares and paid the application money of Rs 47,250. Apparently she did not receive any allotment. Later she received 150 shares each from 6,315 allottees through off-market transfer. Thus, she received 9, 47,250 shares in aggregate, which she sold through five other entities on the day of listing. Another investor, Sugandh Estates and Investments Pvt. Ltd, also received a large number of shares by similar method of manipulation and gained about Rs 32 lakh through opening 1,315 *benami* accounts. Investigation by SEBI found depository participant, Karvy-DP (Depository Participant), which was used by these companies to open 7,630 *benami* dematerialized accounts (which served as a conduit for two entities) failing in the ‘know your client’ norms [2] in the issue. SEBI asked NSDL- National Security Depository Ltd. (India) to undertake comprehensive inspection of Karvy-DP to check whether it had implemented the ‘know your client’ norms that DPs were required to follow.

Finally, 13 entities and individuals were barred from further dealings in YES Bank and future IPOs. The modus operandi adopted in manipulating the YES Bank Ltd (YBL)’s (IPO) allotment involved opening of over 7,500 *benami* dematerialized accounts. These accounts were with the NSDL through Karvy Stock broking Ltd (Karvy-DP). Of the 13 erring entities, the chief culprits identified by SEBI were Ms Roopalben Panchal and Sugandh Estates and Investments Pvt. Ltd. While Ms Panchal opened 6,315 *benami* DP accounts, another entity Sugandh opened 1,315 *benami* accounts. Each of these accounts applications were made for 1,050 shares, paying application money of Rs 47,250 each. By applying for small lots (1,050 shares through each accounts), they misused the retail allotment quota stipulated for IPO’s. The shares allotted in IPO to the *benamis* of Ms Panchal and Sugandh would have otherwise gone to genuine retail applicants. Curiously, as per the dematerialised account data furnished by NSDL, of the above 6,315 entities as many as 6,221 entities had same address in Ahmedabad. There were three more addresses of locations in Ahmedabad, which were been linked to Ms Panchal. All the 6,315 entities had their bank accounts with Bharat Overseas Bank and

demat accounts with Karvy-DP. By applying for the maximum possible number of shares per applicant while being categorized as retail applicant and by putting in large number of applications in the lot of 1,050 shares, Ms Panchal and her associates (real or fictitious) attempted to corner the maximum possible number of shares in the IPO allotment.

“If you make an application as a high net worth individual (HNI), the chances of allotment were low. If, using the same money, you could make more applications through *benami* accounts, the chances of allotment rise at least five times,” said a stock broker. Ms Panchal and others did precisely that - channeling the funds into the retail segment and get higher allotment. By ensuring that all the applications were below Rs 50,000, the cut-off limit for small retail investors, they played in the retail segment where chances of allotment were higher and checks were not very vigorous. “For applying for smaller number of shares, the investor was not even required to quote his/her PAN number,” the broker said. This tantamount to an abuse of IPO allotment process, the SEBI order said. A similar modus operandi was adopted by others also.

### Market Reaction

Even as the Indian stock markets were taken aback with the Yes Bank IPO allotment scam unearthed by the SEBI on 15<sup>th</sup> December, 05, Karvy Depository Participant (DP) said that such IPO allotment scams were not ruled out. According to Mr. C. Parthasarathy- Karvy group, Chairman, similar *benami* demat accounts with a good number of depository participants across the country could have been used in several other IPO's in a similar manner for cornering a major chunk of shares, which now calls for a deeper probe. This is because the failure lies in the system itself. Nothing went wrong on our part in the due diligence exercise. Nothing seemed suspicious since these demat accounts using the same address were opened over a period of more than a year. In fact, even the external auditing firm appointed by us for conducting concurrent audit also did not smell any lapses in our systems and procedures,” Mr. Parthasarathy told media. According to him, the same address can be used for opening several demat accounts in many occasions such as power of attorney, Internet accounts, loan applications, advisory applications, and sub-brokers. There is no bar on an individual investor opening multiple demat accounts, either with one or more DPs, he added. YES Bank on 16 Dec., 06 said that the SEBI findings on manipulation in its shares are part of the IPO allotment process and the bank is not the specific subject of any scam.

### NSDL Cries Foul

The country's premier depository NSDL said that SEBI did not followed the “principles of natural justice” while blaming NSDL on the YES Bank IPO scam. “In this case (YES Bank IPO case), NSDL has not been heard at all before passing any orders. Nor has SEBI given any documents or evidence to NSDL which form the basis of SEBI's conclusion regarding NSDL,” it said in a letter addressed to Mr. G Anantharaman, Whole-Time Member, SEBI, who passed the order on the IPO scam. In a detailed “objections” to the SEBI's order, NSDL put the ball back in the regulator's court by saying that the matter concerning the “important regulation” on market manipulation was entirely “within the jurisdiction of SEBI”. The letter notes, ‘As far as market manipulation was concerned, the SEBI had very rightly not assigned any supervisory role or cast any obligation on NSDL for administering the provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. Therefore, NSDL is not concerned with this very important regulation. It is entirely within the jurisdiction of SEBI.’ The NSDL found lapses by Karvy Share Broking (Karvy) in processing account-opening application for demat accounts. The finding follows NSDL's inspection of Karvy in Yes Bank IPO allotment. NSDL said bank documents as required by SEBI norms were made available but there have been lapses at Karvy in processing account-opening applications and these have not been dealt with the care with which they ought to be treated. Karvy was advised by NSDL to identify all those clients (with the addresses mentioned in the SEBI order) otherwise freeze the accounts for all transactions till such time the clients identify themselves. They were also asked to take similar action in case of all accounts introduced by the same sub-broker. NSDL said Karvy had never carried out a check based on common addresses but Karvy had claimed that common addresses occur because it is a market practice to have company address in case of employees and financier's address in case of IPO financing. NSDL said it would carry but an analysis of the client accounts opened in the previous year where more than 20 accounts have the same address. The know-your-clients documents with regard to such accounts will be scrutinized.

### **Another Scam Unearthed**

Even though the Government resolved to remain tough with scamster, SEBI on 12<sup>th</sup> Jan.,06 unearthed yet another abuse of IPO norms in the Infrastructure Development Finance Company's (IDFC) initial public offering (IPO) where a few investors opened over 14,000 dematerialised accounts to corner large number of shares of the company. This was the second such incident, after a similar such violations were detected in the YES Bank's IPO. SEBI said in IDFC's IPO too four investors opened as many as 14,807 dematerialised accounts with Karvy-DP and "strangely", all these account holders have their bank accounts with Bharat Overseas Bank Ltd (BhOB), Ahmedabad. SEBI order said: "further probe is required for examining the systemic fault, if any, of the registrar Karvy-RTI i.e. Karvy Computer Shares Pvt. Ltd, and the lead managers Kotak Mahindra Capital Company Ltd, DSP Merrill Lynch Ltd and SBI Capital Markets Ltd in identifying and weeding out the *benami* applications." References were made to the RBI to examine the role of BhOB, HDFC Bank, Indian Overseas Bank, ING Vysya Bank and Vijaya Bank in opening the bank accounts of those *benami* entities and apparently funding them. The Reserve Bank of India asked for explanations from all banks involved in IPO irregularities so that it can take action on the basis of their responses. In a press release issued, the RBI said it has taken up detailed investigation at Bharat Overseas Bank, Vijaya Bank and certain other banks. Funding of IPOs through multiple accounts was being followed by Bharat Overseas Bank and this covered funding of several other IPOs, one of them being IDFC, said the RBI

### **Genuine Investor being Victimized**

The Ahmedabad-based Lok Prakashan Group and its promoters named in the IDFC IPO scam as entities receiving lakhs of shares in off-market deals before listing claim that they were innocent. "We are genuine investors and we are seeking legal opinion ahead of challenging the Securities and Exchange Board of India (SEBI) order barring us from future public issues. We were not given any opportunity to clarify our position," Mr Shreyans S. Shah, Managing Editor and Publisher of Gujarat Samachar, a popular vernacular daily of the Lok Prakashan Group, told reporters. The Lok Prakashan Group, along with its promoters - Mr Shreyans S. Shah, Mr Bahubali Shah and Ms Smruti Shreyans Shah were barred from dealing in the shares of Infrastructure Development Finance Company (IDFC) Ltd and participating in any future initial public offering (IPO) issues. According to SEBI's preliminary findings, the Shah family and Lok Prakashan Group received 4,46,880 shares (3,35,160 to the company, 55,860 to Mr Bahubali Shah and 27,930 each to Mr Shreyans Shah and Ms Smruti Shah) in off-market deals before the listing. Most of these shares were subsequently sold off on listing. Interestingly, most of these shares came to the Shah family's brokers from Ms Roopalben Panchal and Sugandh Estates and Investments Ltd, the prime accused in the scam. "I do not know Ms Roopalben Panchal, either directly or indirectly, and have nothing to do with her. I was not aware that my share broker had obtained shares from her and transferred them into my account," Mr. Shah said.

### **Banks Fined for Irregularities**

On January 23<sup>rd</sup>, 06, The Reserve Bank of India fined seven banks for violation of RBI regulations and IPO finance irregularity. The RBI said that the penalties were imposed on these banks for violation of regulations on "know your customer (KYC) norms, for breach of prudent banking practices, and facilitating misuse of IPO finance to ineligible borrowers. Through a separate notification, RBI prohibited banks from crediting a/c payee cheque to the a/c of any person other than the payee named therein. The Ministry of Company Affairs, which was closely following the demat scam in the public issue of Yes Bank Ltd and IDFC Ltd, called for a coordinated investigation by the three regulators — the Reserve Bank of India, the Securities & Exchange Board of India, and the Ministry — in order to assure prospective investors against recurrence of any malpractices in forthcoming new public issues.

### **PAN made Compulsory for Trading**

SEBI came with a new guidelines that all demat account holders will compulsorily need permanent account number (PAN). The Securities and Exchange Board of India directed the depositories to make PAN compulsory for all demat accounts that are opened after April 1, 2006. Further, from October 1, the existing demat account holders will not be able to operate their accounts if they do not produce their PAN card said the SEBI. This rule as proposed is applicable to all demat account holders, including minors, trusts, foreign corporate bodies, banks, corporate bodies, FIIs and NRIs, said a circular from National Securities Depository Ltd. These measures were taken in order to tighten the 'Know Your Customer' norms, post the IPO scam. Staffs at Depository Participants' offices were asked to personally verify

the identity and address while opening demat account and the record of the person who carried out such verification should be made available. The name of the demat account holder would be compared with the name appearing on the Web site of the Income Tax Department and clarification would be sought from the account holder if there is a mismatch, the circular said. In the case of joint account, both account holders should have PAN cards. In case the account holders fail to provide copies of their PAN cards to the depositories before October 1, their demat account would be 'suspended for debit' until PAN details are provided and verified, it said.

### **SEBI bars Karvy, 23 Other Entities**

SEBI came down heavily on stock market intermediaries by banning several entities including Karvy group of companies, Pratik DP and Indiabulls Securities, for their alleged involvement in the IPO allotment scam. SEBI also barred several entities including HDFC Bank, IDBI Bank, ING Vysya Bank and Motilal Oswal Securities from opening fresh demat accounts. In an interim order issued on April 27<sup>th</sup>, 06 after the second round of investigations, the capital market regulator banned 24 entities from buying and selling securities till further orders. SEBI also said 15 Depository Participants at NSDL including Kotak Securities, Citibank, ICICI Bank, Bank Paribas and IndusInd Bank had more than 500 demat account holders sharing the common address. It asked NSDL to conduct inspection on whether all the demat account holders are genuine. NSDL was asked to check whether the Know Your Customer norms of SEBI have been duly complied with and take action against suspect accounts on verification. Analysts felt that SEBI order was akin to capital punishment for the entities involved in the securities market scam. Appropriate quasi-judicial proceedings are being initiated against the two DPs," the 252-page order issued. SEBI said that the other business groups of Karvy appear to have acted in concert in the gamut of IPO manipulations. "I further direct Karvy Stock Broking Ltd, Karvy Computer Share Pvt. Ltd, Karvy Investor Services and Karvy Consultants not to undertake fresh business as registrar to the issue and share transfer agent," Mr. G Anantharaman, Whole-Time Member, SEBI, said. The regulator also pulled up NSDL and CDSL for 'grave management lapses'. The findings revealed "contributory negligence" on the part of the depositories and their managements. "The promoters of NSDL and CDSL are directed to take all appropriate actions including revamping of management which clearly has allowed matters to come to such a sorry pass," the order said. The order, to be treated as a 'show-cause notice', gave 15 days time to the parties named for filing objections.

### **Going into the Past**

Some of the demat accounts that were used to manipulate allotments in the initial public offer of Yes Bank and IDFC were opened during 2003, and not in the last year as was earlier believed. The first IPO in which the key operators have participated was that of Maruti Udyog Ltd, in June 2003, though the numbers of fictitious demat accounts were not very high then, the interim order from Securities and Exchange Board of India has said. SEBI's investigations pegged that a "total of 24 key operators were indulged in abusive practices in respect of 21 IPOs". The evidence against Karvy DP stemmed from the fact that almost all the demat accounts which served as conduits for these master account holders were held with Karvy DP, according to the order. These 24 operators had 34 demat accounts; of which 16 demat accounts are held with Karvy DP. The market regulator's investigations pointed out that, while opening demat accounts the depository participants were not exercising due diligence. SEBI accused the DPs of not fully implementing the 'maker-checker' concept, data entry errors, scanning of officials' signatures, and appointing themselves as the second holder. With some of the DPs also acting as brokers, stock exchanges were advised to examine the role and involvement of brokers and sub-brokers by way of participation in IPO's either directly or indirectly and their dealings in the shares subsequent to listing. Exchanges were asked to submit a report on this within a month. The Securities and Exchange Board of India on April 28, 2006 climbed down on its trading ban order against Indiabulls Securities in the IPO scam until further directions, hours after it had banned the company and several other market intermediaries on the previous day. SEBI said, "the ex parte ad-interim order dated April 27 in the matter of initial public offering, in so far as it relates to India bulls Securities would be kept in abeyance subject to verification of clients and until further directions." The order was put on hold after Indiabulls contested it. Top officials of Indiabulls Securities including its Chairman, Mr Sameer Ghelaut, met the SEBI Whole-Time Member, Mr G. Anantharaman, who issued the order. The reversal of the trading ban on Indiabulls comes "on the basis of oral and written submissions" made by Mr Ghelaut, SEBI said.

In a notice to the BSE, India bulls said it made submissions regarding the receipt of 13,939 shares of TCS after its IPO from 559 different accounts. These account holders transferred TCS shares to India bulls Securities' client



margin account for their trading purposes for meeting their margin requirements as per the stock exchange rules and regulations. India bulls Securities accepted these shares in its capacity as a broker for the limited purpose of facilitating the client transactions. As per the rules, a broker cannot trade on behalf of a client without receiving margin from the client either in the form of cash or shares," it said. On the sales of the TCS shares, the company said the proceeds of the sales were transferred by Indiabulls Securities to the same individual client accounts that had transferred these shares to India Bulls client margin account for meeting margin requirements. India bulls Financial Services said Indiabulls Securities Ltd or any of its group companies had absolutely no role in either the IPO application of these clients or any economic interest or any other interest whatsoever in the sale proceeds arising out of the sale of 13,939 shares or any financing of any of the IPO applications of the clients. These clients were based out of 81 different cities in India. The capital market regulator came out with a clarification on April 28<sup>th</sup>, 06 that all the clients of the market intermediaries named in IPO scam can continue to transact business with these companies or entities. The ban of dealings will be applicable only in respect to proprietary account of brokers. "On DP transactions through Karvy DP and Pratik DP, which were banned from dealings in the securities market, SEBI asked the clients to switchover to another DP within 15 days." It was clarified that the DP transactions of clients would remain unaffected only for 15 days, by which time switchover to another DP should take place in respect of directions against Karvy DP and Pratik DP," a SEBI press release said. SEBI also clarified that the allotments of the Reliance Petroleum Ltd's (RPL) just-concluded IPO will continue unaffected. Karvy was the registrar for the RPL issue. "SEBI order restrains the companies from taking up fresh businesses. However, a major relief to Karvy came on April 28<sup>th</sup>, 06 in the form of a revised SEBI order that permitted Karvy Stock Broking to trade on behalf of its retail clients on both BSE and NSE but barred it only from carrying on proprietary transactions. "We are victims of a well orchestrated fraud perpetrated by a handful of sub-brokers. The SEBI order is very harsh and unfortunately, the regulator did not provide us an opportunity to clarify our role vis-à-vis the allegations," the Karvy Chairman, Mr. C. Parthasarathy, said. Addressing newsmen April 28<sup>th</sup>, 06, he said Karvy has ensured collection of all the relevant documents, established proof of identity and address of investors while opening DP accounts. The KYC (know your customer) norms, prima-facie, were fulfilled. Karvy would clarify its position and appeal against the SEBI interim order shortly, he said. Reacting to another SEBI order on 28<sup>th</sup> April, 2006 morning that advised the customers of Karvy Depository to switch over to other DP, he said, "It is the investors' prerogative. However, we are confident that our DP customers would not prefer to leave us since our services are amongst the best in the industry, which helped us emerge the largest DP with 7.5 lakh accounts." Terming that only 65,000 accounts aggregating to around eight per cent of total accounts opened by the sub-brokers were of suspicious nature and confined to two branches only, Mumbai and Ahmedabad, out of 510 branches, Mr. Parthasarathy said, "Our submission to the regulator is that whatever happened was not the representative sample of the total clientele that we have."

Another blow for Karvy Group was the SEBI order barring Karvy Computershare, a leader in registrar and share transfer agent business, from taking up new assignments apart from those already contracted for. This Karvy outfit was servicing about 22 million investor accounts and 350 corporate and mutual funds. Stating that Karvy had not lost any customer on account of the IPO scam, Mr. Parthasarathy said, "We will have to prove our credibility. We will also have to ensure that the retail investors are not affected in any manner by virtue of any order that SEBI passes on us. The Karvy Group refuted charges made by the Securities and Exchange Board of India in its interim order barring the group from depository participant and other services. Karvy Stock Broking Ltd (KSBL) was named as one of the 85 entities that had acted as a financier of the master account holders who appear to be the ultimate beneficiaries in the IPO scam. The order refers to KSBL as financier to one Mr. D.B. Mehta in the NTPC issue. In a press release, Karvy said KSBL had never financed any IPO customer till date. Neither KSBL nor any of Karvy associate companies financed the said investor for the issue. "This investor has a secondary market trading account with KSBL Mumbai branch, and he had transferred shares into our pool account on the day the securities were listed and sold the shares in the market. SEBI appears to have mistaken the transfer of securities into our pool account by a customer, who was subsequently paid the proceeds, as a wrongful act of Karvy," the release said. SEBI had alluded that the certificates of introduction, issued by bankers for DP accounts, were forged and were issued with the connivance of Karvy. "This is baseless and simply based on the concerned bank along with the said individuals, who seemed to have acted in collusion and now shifting the blame. The fact that the collusion of the banks with these individuals can be borne out of the fact that all these fictitious individuals were given loans and the refunds credited to the said accounts. If these bank certificates were issued without the knowledge of the concerned bank, then how did these banks issue loans to such applicants without a bank account

and how did they credit the refunds, either given piecemeal or in a consolidated form, to respective loan accounts?” Karvy pointed out.

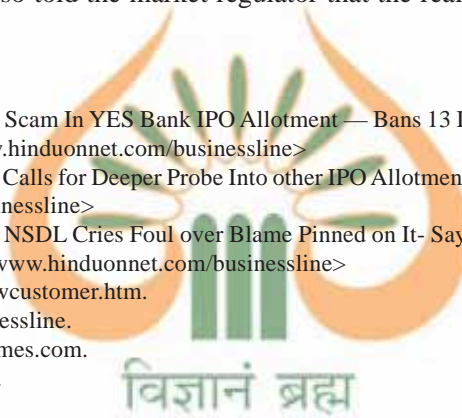
### HC Stays SEBI Order on Karvy

Providing a major relief to Karvy Group on 2<sup>nd</sup> May, 2006, the Andhra Pradesh High Court passed an interim suspension order on the directives of SEBI that barred Karvy Group entities from carrying on certain stock market activities. The Court also stayed the SEBI order that asked the depository account holders of Karvy to shift to other depository participants (DPs). Responding to a writ petition filed by Karvy challenging the SEBI directives, the High Court also permitted Karvy to continue its normal equity market activities pending final disposal of the writ petition. Karvy submitted a detailed memorandum to the market regulator refuting all the charges levelled against it in the interim order. Top officials of Karvy Group and Anagram Stock Broking, which were among the 24 entities named in the multi-crore IPO scam, met the SEBI officials on 2<sup>nd</sup> May, 06 and explained their position in the matter. In separate meetings with SEBI, both Karvy and Anagram said they had no role whatsoever in the IPO scam, sources said.

“As far as we are concerned, the SEBI order banning proprietary business will not impact us as we are into retail broking business,” said an official. Twelve days after passing ex-parte interim orders barring Karvy from operating in the capital market for alleged involvement in the IPO scam, the SEBI gave the opportunity of personal hearing to the company on 9<sup>th</sup> May, 2006. Karvy used the three-hour hearing opportunity to put forth its arguments refuting all the allegations leveled against it in the SEBI interim orders. Admitting certain lapses in two of its branches (Ahmedabad and Mumbai) with regard to know-your-client norms that lead to fake DP accounts, Karvy submitted that there was absolutely no malafide intent behind it. Karvy also told the market regulator that the real problem lay in the system and favored reforms in that direction.

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## Wither India- An Autobiography

*Prof. Om Prakash*  
*RBSA Publishers, 2005, 306pp,*  
*Jaipur, India*

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Building of a nation and its positioning in this world requires a number of diversified factors. The author identified the families, institutions, academics, bureaucratic roles, politics, and patriotism as the biggest interplay in the pre and post independent India. The real manner of positioning India in future depends on the implementation of strategic and political priorities after a mature thought process. The author reflects all these issues in a meticulously planned manner in this book.

The book is divided into three parts of two chapters each. Part one is “About Ourselves”, which explains very nicely ‘The Family’ in Chapter I and “Tributes to An Angel” in Chapter II. An account of the male dynasty tree of the author starting from his earlier three generations explain very clearly the role of the family since Moghul Court. The decedents occupied high official and professional positions of trust including the management of Mughal Empire, affairs of various princely states, European Firms, Indian Railways, legal professions, judiciary, medical profession, engineering, technology, Universities, other scholarly institutions, public sector organizations etc. with positions to the highest level of the administrative hierarchy. This Chapter reflects the real values system and excellence of the family in diversified fields through generations.

The second chapter- Tributes to An Angel, is an emotional account of a great scholar whose metal could prove the world even at the young age of forty. He was Dr. Rajendra Prakash Mathur, the youngest son of the author, Professor Om Prakash. Human society had lost Dr. Rajendra Prakash Mathur, Professor of Pathology, Mulana Azad Medical College, New Delhi, a great scholar and a good human being on December 13, 1995 at the young age of thirty nine. In Memoriam (1996) published from Jaipur, many expressed their tribute to Dr. Mathur. In the process of finding a cure of Hepatitis B, the virus for his survival vindictively victimised him and he passed away prematurely. Mr. Abid Hussain, IAS (Retd.), Vice Chairman, Rajiv Gandhi Foundation and formerly member of the Planning Commission, Government of India put Dr. Rajendra Prakash Mathur in the category of Nobel Laureates. The author also highlights the six memorial lecture series delivered so far in honour of Dr. Rajendra Prakash Mathur since 1996 and the naming of a one kilometre long road in front of Gandhi Nagar (Jaipur) Railway Station in his memory. The suggestion of naming the road was from Justice, Dr. B.P. Beri and he inaugurated the road on June 4, 2000.

Part two of the book is “About Academics”, which includes chapter 3- Journey Through Academics and chapter 4- Journey Through Academics, Second Lap. Chapter 3 explains very clearly, the period of the author’s journey from the University of Allahabad to the University of Punjab, Chandigarh. The celebrated literary giant, Dr Amarnath jha was in his ninth year of office as Vice Chancellor when he joined as faculty on July 16, 1947. The author highlight the success of the University of Allahabad in attracting number of distinguish professors from foreign countries before the independence of India. The chapter discusses the way the great academician contributed in building up intellectual capital base of our country. As an institution builder and as a good human, the contribution and good qualities of Dr. Jha is describe in this chapter too.

The author then joined the Punjab University, Chandigarh in 1962 as a first university professor in the department of Commerce and Business Administration. The Punjab University was established at Lahor (now in Pakistan) in 1882 as the fourth University since British rule started formally in 1857. Five years later in 18887, the University of Allahabad was established. The tragic turmoil that preceded and followed the painful event of 1947 is explained as a great toll to some great intellectuals of that time. As a result of that process, the new Punjab University came up in that very year 1947 but finally consolidated to Chandigarh as a permanent campus in 1957. Man of great calibre like Dr. A. C. Joshi was the Vice Chancellor when the author joined the Punjab University. The book explain the contribution of Dr. Joshi without whose contribution the Punjab University might have fallen into an economic morass not very different from the mess into which many of the loosely managed universities have fallen in the post independence era.

The second phase of the author's journey through academics is discussed in the fourth chapter. He joined the University of Rajasthan on July 8, 1963 as a youngest professor and took the charge of Director and first university professor in the Faculty of Commerce. This chapter also reflects the way Dr. Mohan Sinha Mehta has scaled the height of education in the University of Rajasthan with his unmatched academic intellect and managerial acumen. Author shares in this chapter his experience of the managerial styles of east and west, difference in the ethics, values and cultures of different countries with examples. The way he has related the managerial ideas, value system, cultural issues of the pre-independence period to the nation building and its role in the post independence era is really enlightening the readers.

Part three of this book is "About Politics". It is divided into two parts as fifth chapter and sixth chapter. Fifth Chapter is "Politics and Patriotism" and Sixth chapter is "Can India Develop Fast". Politics and patriotism is discussed in three phases- from 1937- 1947, from 1947- 1977, and from 1977- 2004. The myopic view of the political thinkers and their strategic failure that leads to the creation of Pakistan is quite touching to the readers. The deep distancing that has taken place between politics and patriotism is really worth to understand. The second phase that is the period from 1947 to 1977 is about change in power politics, divide and rule, and balkanization of British India into some five hundred independent entities. The role of Sardar Patel, the Iron Man of India in the integration of these entities is highlighted here. A beautiful account of the rulers during this period and their policy issues and failures in maintaining the legacy of status quo on the Chinese front, problem of infiltration, Kashmir issues, and issue of Sikkim are explained here.

The third phase of this chapter the author gives a real picture of power politics, policy priorities, period of prime Ministers if India in power, the process of economic reforms, diplomatic relationships, nuclear test during Atul Behari Vajpayee Government and Dr. APJ Abdul Kalam's stress on technological advancement and India's becoming of self proclaimed leader of the new world order etc. The way author, a world acclaimed scholar and a celebrated Vice Chancellor, has explained his interaction in this chapter with the Prime Ministers and many of the political and Government stalwarts add life to the readers of this book.

The last chapter of Part Three of the Book is on- "Can India Develop Fast". The author explains the way pinnacles of patriotism in 1942 have been collapsed in the next six decades. He makes the reading of this book very interesting specially in this part through his meticulous explanations on some headings- Divisive and Integrative forces, Slogan of Secularism, Legacy of Litigants, Society of Spectaculars, Disintegration of Joint Families, Need for Joint Family, How Can Joint Family Succeed, Demise of Academics, Role of Bureaucracy, Technology and Defence, and Recipe for Development. Author highlights the commercialization of education and deprive of real academicians and unfavourable symptoms of the realization of President Kalam's vision to put India in the galaxy of developed nations by 2020. Besides, he explain the insight of real problems that the world is facing on account of terrorism, politico religious turmoil, environmental degradation, ethical erosion, social tensions, inequalities etc. The problem of Hindus in the coming days after the disintegration of Soviet Union and probable difficulties to resist the attacks like 9/11 are also highlighted in this part of the book. The author finally listed some recipes for tackling the developmental issues which are critical in both its external and internal dimensions. The reading of this book will enrich your understanding of India in the global platform. The meticulous planning and presentation, the way the sentences and linkages are constructed, the author's unmatched and extraordinary calibre of mind as a great academician and as a celebrated Vice- Chancellor of different Universities, the family values and cultures, pang of untimely demise of his youngest son, a great scholar, and the building of a great nation which are explained in this book lead the reader to a totally new arena of productive thought process. As a reader of this book, one can see the situation of group dynamics, politics, strategies, intellect really need and apply in our life.

## Reflections on Human Development

*Mahbub-ul-Haque*  
*Oxford University Press,*  
*PP 252, 1995 (Hard Back), Rs.395 /-*

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In the realms of development economics, the book under review, “*Reflections on Human Development*” possibly provides the most urgent agenda of the ongoing millennium. Neither just development nor only sustainable development it is the Sustainable Human Development, which is the central theme of this, well thought out, well argued and well structured compilation.

Although the concern with human is not a recent one, as great philosophers of older times and even the Classical economists such as Adam Smith, Malthus, J.S.Mill and Karl Marx, have often persuasively reminded us of the same, it is undoubtedly the genius of Professor Mahbub-ul-Haque who brought in human beings at the center of the development policies.

Denouncing the efficiency of GNP as a Measure of growth and development, the new paradigm includes entirely new and yet quite relevant indicators capable of reflecting the human development in a wholesome way. Though not completely flawless and problem free, the paradigm, however, advances compelling arguments in favor of the replacement against the old paradigm of development. Spread over 252 pages, “*Reflections on Human Development*” is a compendium of 17 short essay type chapters with two broad divisions.

**Part I:** - Towards a new development paradigm, comprised of eight chapters. (8)

**Part II:** - Towards a new international dialogue comprised of nine chapters. (9)

The book has a very lucid, though exhaustive “foreword” by Paul Streeten, one of Professor Haque’s friends and associates. Streeten in his note is full of praise for Haque’s formidable powers of persuasion, his eloquence, strength of character, flexibility and for being a man with gentle appearance but with a hard backbone. Paul Streeten further explains the reasons for shifting in the paradigm by pointing out the plus points of human development and limitations of GNP as a measure of human welfare.

### **Part I - Towards a New Development Paradigm**

In the first chapter, Mahbub-ul-Haque brings out the fallacies of the development planning. The lack of recognition given to “people as an end of development” is the main gist of this chapter. Professor Haque outlines the distinct elements lacking in plans like a human balance-sheet, the need to express planned target in terms of basic human needs, equal emphasis on both production and distribution objectives, decentralized human development strategy, and a need for a comprehensive set of social and human development indicators. Dr. Haque also suggests new ways of adjustment processes and international decisions to achieve the desired goals in terms of dimensions of human development.

The basic edifice of part 1 of this book stands on chapter 2, wherein Professor Haque briefly mentions the old paradigm and highlights the comparative merits of the new paradigm. Mahbub-ul-Haque puts forward strong arguments in favor of “human choices” against “income” as an indicator of development. Furthermore Professor Haque discusses the four essential components of the human development paradigm viz, equity, sustainability, productivity and empowerment in great detail. The desirable links between economic growth and human development also finds a place.

After briefly explaining the events preceding the publication of the first-ever Development report in May 1990, Professor Haque discusses the first five Human Development reports. The first report (1990) explains the concept and measurement of human development in great detail. The 1991 report discusses the sources of financing human development. Likewise international dimensions of human development, people’s participation and, human security were the central themes for the reports in 1992, 1993 and 1994 respectively.

Professor Haque also presents policy proposals for consideration by the global community. He concludes the chapter with a discussion on the implications of a Human Development reports on global policy dialogues. Professor

Haque has been courageous enough to accept certain limitations of the method, but at the same time maintain that indeed the complex nature of the newly included indicators is the real strength of the paradigm.

In chapter 4, Professor Mahbub very ably portrays human development index as a solution to all the shortcomings of GNP as a measure of welfare. Dr. Haque, mentions about the principles underlying the concept of Human Development Index and then supplements the argument with a discussion on Human Development Index versus GNP based on statistical evidences. Apart from the method for constructing a Human Development Index, the chapter also includes an interesting section on “What Human Development Index reveals?” Herein Professor Haque mentions potential growth, disparities between people early warning systems and change over time as probable revelations of Human Development Index as a measure of Socio Economic progress. Professor Haque also mentions about criticisms and possible refinements in human development index - concept and methodology. One other criticism of HDI mentioned in chapter 4 was lesser number of variables incorporated in the preparation of Human Development Index. Professor Haque provides with a solution in the form of political freedom index. The author presents a design for the political freedom index. Professor Haque starts the discussion by pointing out the difficulties related to incorporating political freedom and then mentions four clusters namely: political participation, the rule of law, freedom of expression and non-discrimination which can be readily quantified so that a meaningful political freedom index is formulated. Mahbub-ul-Haque also discusses the Political freedom index for 1994 based on the methodology and data available on the four clusters.

The chapter on Sustainable Development is a very well written essay, which shows the authors understanding and concern for environmental issues and the future generations. Emphasizing on the basic concept of sustainable human development, he reiterates that human development must allow each generation to balance its budget in each of the four areas i.e. environmental debts, social debts, financial debts, and demographic debts. Besides a conceptual framework, the chapter contains a concrete 10-point agenda for action to deal with the problem confronting the global human development scenario. In a separate chapter dealing with the needed strategy to foster growth and development in South Asia, the author suggests some policy actions especially for India and Pakistan. Condemning the huge spending on defence by the two countries, the book reveals the enormous “peace dividend” if the two countries freeze their military spending just for a decade. This could then ably finance the entire cost of universal education, primary health care, safe drinking water and other basic Social Services.

In the concluding chapter of the first part of the book, the author outlines the causes of the critical gaps in the human development record of most of the Islamic countries and further explores the potential possibilities to enhance their overall level of social economic positions in terms of human development index.

## **Part II- Towards a New International Dialogue**

In the 9<sup>th</sup> chapter, the author offers a new vision of human security for the 21st century where real security is equated with security of people in their homes, in their jobs, in their streets, in their communities, and in their environment. Professor Haque chalks out 5 determined steps for human security to serve as a basis for the new human world order. The steps include a new concept of development, a new phase of disarmament, a new framework for development cooperation between North and South, a new framework for Global governance and a move towards a global civil society.

The author in the 10<sup>th</sup> chapter examines the experiences with regard to reduction in military spending as a means for over all socio-economic human development over a period of seven years (1987 - 1994). The chapter starts with a section on actual performance in terms of peace dividend followed by a section on potential peace dividend at a global level. A separate section highlighting the stark realities with respect to military spending in the third world is also dealt with. The chapter in the concluding section offers a five point agenda for peace in the third world. (1) Start at the source, (2) create forums to discuss third world disarmament, (3) mindless arms race and the role of industrial countries, (4) military spending and the aid dialogue and (5) transparency of information on military spending

The chapter titled “A new framework for development cooperation” basically offers proposals to improve the quality of assistance and to design a framework of development cooperation to fit the post cold war realities. The author points out the reality behind the market functioning and the myths attached to it. Professor Haque opines that the markets are not very friendly to the poor, to the very weak or to the vulnerable either nationally or internationally. In the section titled markets and the poor, the author describes market as handmaidens of powerful interest groups which are greatly affected by the prevailing income distributions.

The author discusses the functioning of the World Bank and changing interpretations of its charter in a separate chapter where sections deal with the distribution of bilateral ODA and World Bank assistance and their inherent links with military spending, poverty alleviation, human development and democratic transition.

The book also hosts a chapter on emergence of Bretton Woods Institutions as a response to the dismal experiences in the past. The author outlines from pillars of multilateralism emerging from Bretton Woods conference namely IMF, IBRD, ITO and the UN. The chapter also includes the impact of Bretton Woods institutions in their first 25 years. A separate section on visions and realities is also discussed and is followed by a list of flaws and possible reforms. Beginning with the brief introduction, the 15th chapter is focused on the central theme i.e. the 20:20 proposal. The detailed discussion on the 20:20 proposal is supplemented by the authors Trust on possible gains in the implementation of the global compact for human development. The author presents a detailed list of possible achievements if the vision 20:20 is implemented. The chapter also includes a section on challenges to the proposal and a separate one on refinements. In the concluding paragraph of the chapter, the author acknowledges the presence of a controversy over the 20:20 proposal and hence suggests generation of public pressure for the implementation of the spirit of 20:20 proposal.

In the introductory paragraph of the 16th chapter, the author presents the need for the establishment of an economic Security Council within the United Nations for facilitating social and economic governance. In the section on present forums, Professor Haque points out the possible limitations to the establishment of an entirely new economic security council. This section also includes a discussion on several forums viz. G7, development and interim committees, economic and social council summits and UN conferences and their role in global economic governance often with overlapping mandate. The chapter also has a detailed separate section on the need for a new economic Security Council. Professor Haque identifies from areas where an economic security council can fill the critical gaps in the system of global economic governance. Separate sections on composition and operations of the economic Security Council are also discussed.

The concluding chapter of “reflections and human development” establishes Mahbub-ul-Haque as a writer with formidable eloquence. Starting with Barbara Wards’ visionary writings, Professor Haque beautifully presents an account of the world we live in and also Barbaras hope for constructing a new edifice of human civilization in the 21st century based on equality of opportunity and on the centrality of human beings. In the last Paragraph of the last chapter Professor Mahbub-ul-Haque expresses contentment over the fact that people have assumed the Center of Development and he hopes to sing a song of the dawning of a new human age guided by a new vision of human progress, for human destiny is a choice not chance.



## Guidelines for Contributors

**Arth Anvesan**, *A Bi-Annual Journal of SMVDU College of Management* invites empirical research papers, articles, case studies with solutions and book reviews, related to different facets of Management and Economics from academicians, practitioners and research scholars. The material, sent for publication should be an original work which has not been previously published or submitted for publication elsewhere.

Manuscript submitted for publication must be in English. The article should:

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- ❑ be typed in double space on one side of A4-size paper in MS-Word Format;
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