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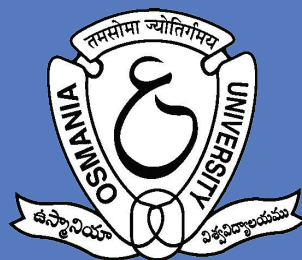
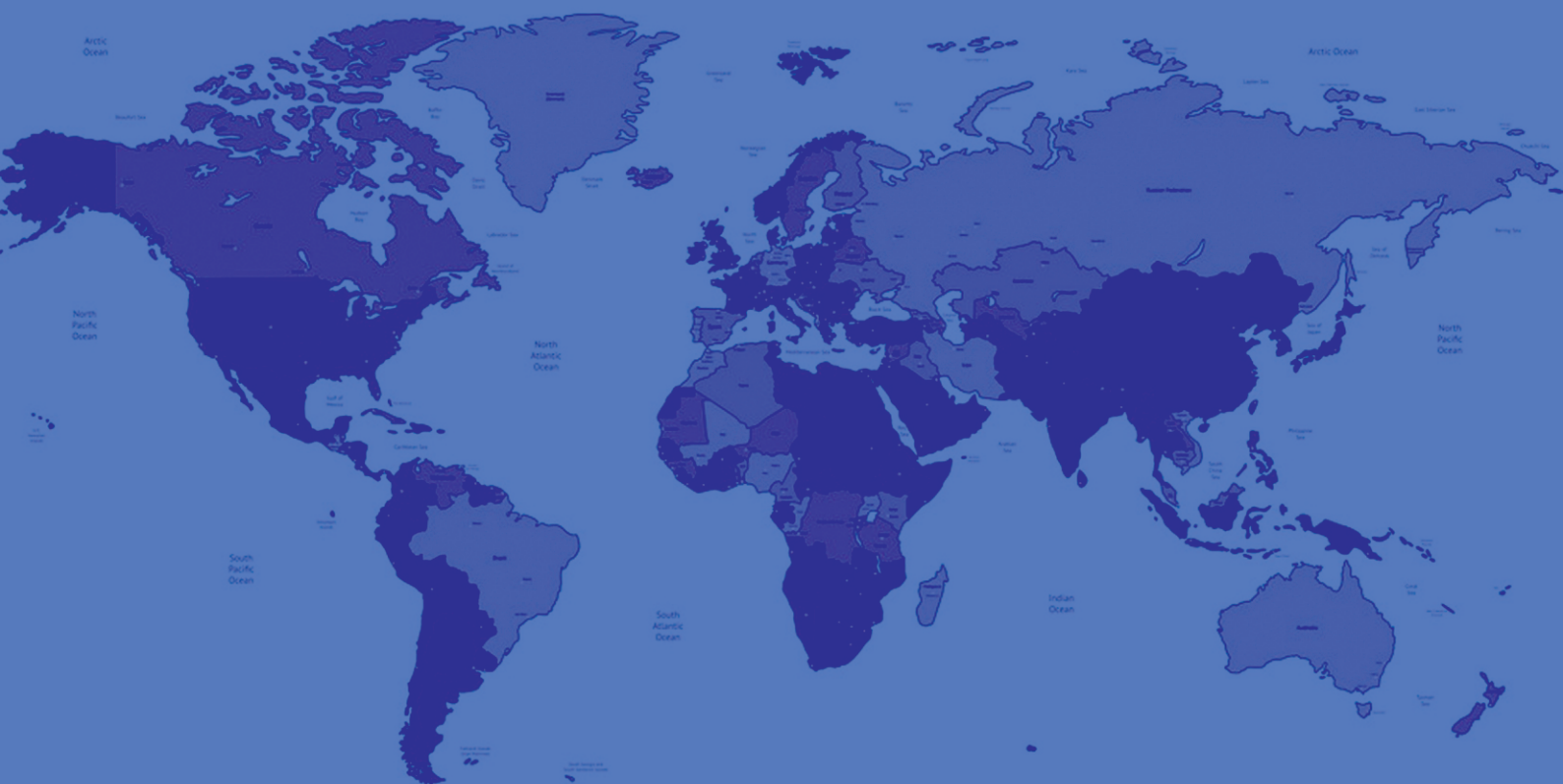
# Osmania Journal of International Business Studies

Vol. XIII

No. 2

(Bi-Annual)

July - December 2018



DEPARTMENT OF COMMERCE  
OSMANIA UNIVERSITY  
HYDERABAD, TELANGANA

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1. Originality and importance of core ideas
2. Quality of treatment of the relevant existing literature
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4. Design and execution of research methodology (if appropriate)
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Authors are encouraged to solicit feedback from colleagues and practitioners on early drafts. A manuscript can be improved dramatically when knowledgeable reviewers are asked for reactions in advance of submission. Manuscripts are considered with the understanding that their contents have not been published and are not under consideration elsewhere. Presentation of a paper at a professional meeting does not disqualify it from consideration.

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# DOES EARNINGS ACCRETION MATTER IN BANK MERGER DECISIONS? AN EMPIRICAL ANALYSIS IN THE CONTEXT OF SEBI LISTING REGULATIONS, 2015

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## ABSTRACT

*While an impressive body of literature exists on mergers in the international context, few studies are conducted in India particularly in the financial sector. Further, these studies are confined to market performance and efficiency gains. Most of the prior studies on announcement wealth effects of bank mergers have found that returns for the target bank shareholders are significantly positive and have reported inconsistent or negative results for bidder banks. While addressing the issue of negative returns of the bidder banks, it is imperative to know that whether the valuation is detrimental to the interest of the bidder banks or not. Though the valuation is more of a strategic kind and is a function of many variables, it would be interesting to make out the impact of valuation on the earnings of bidder and target banks. Thus, the present study examines the impact of the bank mergers on the shareholders' wealth in terms of earnings. To be more specific, the study checks whether valuers have considered earnings accretion or dilution as a criteria while taking bank merger decisions. The study is important especially in the context of SEBI Listing Regulations, 2015.*

**Keywords:** *SEBI Listing Regulations, Bank Mergers, Accretion-Dilution Analysis, Valuation, Announcement Effect*

## I. Introduction

Mergers and Acquisitions (M&As) is one of the major ways of corporate restructuring or ownership structuring. While merger is used to denote the unification of two or more companies, acquisitions are aimed at gaining the controlling interest. In line with global trends, Indian companies have been using corporate restructuring through M&As since 1970s. Notwithstanding the fact, the new industrial policy introduced in the year 1991 was the key motivating factor behind the increased consolidation process in India. Though mergers became a routine corporate event in real sectors during 1990s, the banking industry, especially the commercial banks stayed away from such corporate events even after the introduction of new industrial policy. It doesn't mean that

M&As is completely a new phenomenon in Indian banking milieu.

Till 1999, Indian banking sector experienced 66 merger deals but, all those were triggered by the weak financials of the target banks or forced mergers u/s 45 (2) of the Banking Regulation Act, 1949. The acquirers were public sector banks. There was no market driven deals till 1999. But, after the implementation of the second Narasimham Committee Report on Banking Sector reforms in 1998, the industry witnessed voluntary or market driven deals. Till date there are eight voluntary mergers. HDFC Bank- Times Bank merger in 2000 was the first of this kind. Again, during this period State Bank of India acquired two of its subsidiaries as per State Bank of India

(Subsidiaries Act), 1959. Apart from these developments, banking industry also witnessed Universal Banking Models (Bank- NBFC Merger) and severe consolidation in the cooperative sector.

A careful analysis of Indian financial sector in the post liberalization period would pinpoint the reasons and motives of bank merger activity in India. There are two broad reasons; regulatory interventions and other business environmental reasons. Regulatory intervention means the policy changes announced in the form of economic reforms and the compulsion from RBI to follow prudential norms in asset quality, credit risk management, capital adequacy, etc. Business environmental reasons include the elimination of competition, growth prospects, tax benefits, acquisition of technology, synergies arising from geographical diversification, increased efficiency, cost savings and economies of scale, financial service convergence, etc.

While an impressive body of literature exists on mergers in the international context, few studies are conducted in India particularly in the financial sector. Further, these studies are confined to market performance and efficiency gains. Most of the prior studies on announcement wealth effects of bank mergers have found that returns for the target bank shareholders are significantly positive and have reported inconsistent results for bidder banks (See Dodd and Ruback, 1977, Muller, Firth, 1980, Jenson & Ruback, 1986, Jayadev & Rudrasensarma, 2007, Anand & Singh, 2008, etc.). So it becomes necessary to look into the reasons for this phenomenon.

While addressing the issue of inconsistent or negative returns of the bidder banks, it is imperative to know that whether the valuation is detrimental to the interest of the bidder banks or not. Though the valuation is more of a strategic kind and is a function of many variables, it would be interesting to make out the impact of valuation on the Earnings Per Share (EPS) of bidder and target banks. Thus this study examines the probable impact of the merger on the shareholders' wealth in terms of EPS. To be more specific, the

study checks whether valuers have considered earnings accretion or dilution as a criteria while taking bank merger decisions.

The importance of fairness report in the Indian context is that the market regulator, Securities and Exchange Board of India (SEBI), in 2008, has made it mandatory that companies, listed as well as unlisted, should appoint an independent merchant banker for giving fairness opinion. Normally, shareholders go by the arguments made by the management favoring the merger deal. But, after the amendment of Equity Listing Agreement in 2008, fairness opinion should be made available to the shareholders at the time of approving the resolution under Clause 24 in order to safeguard the interest of the shareholders. Further, The SEBI has issued circulars prescribing additional requirements and disclosures to be made under specified clauses of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), and to avail exemption under rule 19(7) of Securities Contract (Regulations) Rules, 1957 (SCRR). It also made it mandatory to submit a fairness report to the shareholders.

## **II. Why is Earnings Accretion or Dilution Significant?**

EPS is very important as the analysis done by the most of the financial analysts and consultants are blindly based on the market multiple, P/E ratio. Consequently it will affect the share prices of the firm. From the perspective of the market, dilutive deals are not accepted in the stock market unless there is a justifiable reason for such dilution. The idea is that most of the consultants and financial advisors will not prefer a dilutive deal (Andrade, 1999)<sup>1</sup>. On the contrary, accretive deals are well accepted by the market. Therefore, the management of the bidding firms tries to avoid the mergers which cause dilution of their EPS.

If the deal produces dilution in the EPS, it is considered as a red signal. While analyzing the results, the study takes the suggestion given by Professor J. Fred Weston that a merger based on an exchange of shares at market prices, which

dilutes the current earnings per share of the acquiring firm, should not necessarily be rejected, provided the expected rate of growth of the earnings of the acquired firm exceeds the rate of growth of earnings of the acquirer<sup>2</sup>. In this case, initial earnings dilution will be replaced by earnings accretion in future years. Also it can be viewed as an initial investment (Silberman, 1968).

### III. Literature Review

In the post-liberalized era, there has been a steep increase in the target bank valuation and it motivated the researchers to investigate the factors which determine the valuation. Till date, the literature on valuation and merger premium has been largely focused on the US and only limited evidence is available outside. Surprisingly, in the European Union, there are not many studies in this aspect. There have been lots of studies that analyse the merger premiums and review the financial determinants of the valuation in the US literature.

At different points of periods, researchers found different set of variables that explain the premium or influence the valuation. The commonality of all these studies is about the measure of premium paid. All studies have taken price paid to book value as the measure of premium paid. The major short coming of these studies lies in the fact that book value of a firm will not reflect the current value of the firm always. But one interesting thing is that the regulators in developed economies used it as criterion for evaluating the merger premiums.

Piper and Weizz (1971) found that prices paid by the holding banks were quite high in relation to their earnings. Out of the 102 bank acquisitions under study 71 were acquired through share exchange method. They observed that acquisition prices are in direct relationship with profitability. To put it differently, reasonably priced deals resulted in value maximization. In addition, book value of the bidders to book value of the target bank was found significant at .01 level in explaining the premium. Varaiya (1987) proposed value maximization hypothesis and management self-interest hypothesis related the valuation and acquisition strategy. The first one states that “A

*bidding firm will not offer a premium over market value of the targets unless it expects post-acquisition gains to be positive*”. Secondly, management self-interest hypothesis states that “*bidding firms may not be constrained from bidding for targets that project a negative net present value to the bidder*”. As an exception to most of the studies, the study measured premium percentage based on market price of the target before announcement. Varaiyas findings show that target’s book large abnormal dollar gains but bidders have only zero gains.

Observed premium =  $\frac{\text{Buyer's offer price} - \text{target's pre-announcement market price}}{\text{pre-announcement market price}}$

Target’s pre-announcement market price

Philips and Pavel (1986) researched 37 target banks between 1981 and 1985 in US. They found that net-charge-offs and net interest rate spreads were highly significant out of 29 variables. They regressed premium to book values on the 29 variables. Rhodes (1987) studied 1835 bank mergers which happened during 1973 and 1983. He found that bank growth, market growth and capital adequacy ratio (Capital to assets ratio) were found significant in explaining the merger premium.

Fraser and Kolari (1987) researched 200 small bank mergers in 1985. In the study deposits to time deposits, net profit, low loan losses were found significant in determining the premium in terms of price to book value. Ngassam (1989) studied economic, financial and characteristics of target banks between 1980 and 1987. They found that profitability, capital adequacy ratio, management efficiency, size, diversification and leverage of target banks explain 77% R-square. Rose (1991) analysed 496 bidder banks and 503 target banks and found that market concentrations, number of bidders and target bank’s efficiency were not significant. In addition to this, the target’s size, return on assets and return on equity were significant in determining the premium. Palia (1993) examined 137 bank acquisitions between 1984 and 1987. He used almost all financial ratios relevant to the banking industry as independent

variables in the regression model. He found that the following variables are significant.

- Target's return on assets (.01 level)
- Inter-state or intra state transaction(.01 level)
- Relative size of the target (.01 level)
- Presence of other target banks in the target's state (.01 level)
- Target's NPA (.05 level)

Subramanian *et al.* (1997) researched 263 bank acquisitions sized over \$100 million and found that the size of the deal and relative size of the target were determinants of merger premium. Jackson and Gart (1998) found ROA, core deposits, method of accounting, NPA and relative size are vital in the valuation process. Most of the studies in the last decade yielded previous results and it is very difficult to generalize the results because a larger number of variables included in the regression model. Block (2007) observes that cash offers lead to higher premiums. He used a three page questionnaire among the managers of 150 banks in the US. 61% of the sample argues that present value of the future earnings of the target determines the premium. Furthermore, he observes that the method of payment i.e., cash or stock or cash and stock has a crucial impact on merger premium.

Jens Hagendorff *et al.* (2010) analysed takeover premiums paid for a sample of bank mergers between 1997 and 2007 in the European Union (EU). They argue that EU rules and regulations

are more comprehensive than the US and stricter prudential and regulatory regimes and deposit insurance schemes lower the takeover premiums. Their criterion for selection of the sample was that the buyer should acquire at least 1% shares of the target bank. The results suggest that the bidder banks value more profitable and high growth banks. This finding is worth noting when it is compared with US literature.

#### IV. Data and Methodology

Data for the present analysis is taken from the annual reports of the banks, Capital line Plus data base, CMIE Prowess data base system, National Stock Exchange of India, etc. For developing the conceptual framework, valuation reports of various deals are consulted. The Indian banking sector has witnessed 23 merger deals in the post reform period which include voluntary and forced merger deals<sup>3</sup>. Out of the 23 deals, only ten deals have derived purchase consideration for the target banks' shareholders. Therefore, these ten deals constitute the sample for the analysis (see *Table 1*)<sup>4</sup>.

Though Bank-Financial Institution deals viz., ICICI Bank-ICICI Ltd and IDBI Bank-IDBI Ltd deals have derived exchange ratios, both deals are excluded from the sample as their financials are incomparable. There was no consideration in 13 deals. Out of the ten deals selected, seven deals were voluntary merger deals (stock transactions); two were forced deals (cash deals) and one as per the State Bank of India (Subsidiaries Banks) Act, 1959 which was also a stock transaction.

**Table 1: Sample Deals**

Year	Target Bank	Bidder Bank	Nature	Medium of Exchange
2000	Times Bank	HDFC Bank	Voluntary Merger	Stock Deal
2001	Bank of Madura	ICICI Bank	Voluntary Merger	Stock Deal
2005	Centurion Bank	Bank of Punjab	Voluntary Merger	Stock Deal
2006	United Western Bank	IDBI Bank	Forced Deal	Cash Deal
2006	Lord Krishna Bank	Centurion Bank of Punjab	Voluntary Merger	Stock Deal
2006	Sangli Bank	ICICI Bank	Voluntary Merger	Stock Deal
2007	Bharat Overseas Bank	Indian Overseas Bank	Regulatory Intervention	Cash Deal
2008	Centurion Bank of Punjab	HDFC Bank	Voluntary Merger	Stock Deal
2010	Bank of Rajasthan	ICICI Bank	Voluntary Merger	Stock Deal
2011	State Bank of Indore	State Bank of India	SBI-Associate merger	Stock Deal



The approach is case study method and it proceeds with the accretion-dilution analysis. The framework of the analysis is given below.

In order to find out the EPS of the combined entity, the number of shares exchanged to the target bank is to be added to the bidders' number of shares. Number of shares to be exchanged by target banks is found by multiplying the ER with the number of shares of the target bank before the merger.

$$\text{Number of shares exchanged} = \text{AER} \times S_B \quad (1)$$

Post-merger combined EPS is found by dividing the post merger combined profit after tax by the post merger combined shares (Including the number of shares exchanged by target banks found as per Equation 1 and it is same as Equation (3).

$$\text{EPS}_{BT} = E_B + E_T \div S_B + S_T (\text{AER}) \dots \dots \dots (2)$$

Further, post-merger EPS of the target bank is found by multiplying ER with the bidder banks' post merger EPS.

$$\text{EPS}_T = \text{AER} \times \text{EPS}_{BT} \dots \dots \dots (3)$$

In the case of cash deals, there is no increase in the number of shares of the bidder bank but, it is to be considered that the cash paid has a cost of capital whether it is borrowed or internal capital. Therefore, the interest payable on the amount paid should be deducted from the combined earnings while calculating EPS dilution/ Accretion (Assuming opportunity cost of capital equal to the return on assets). Further, the method of accounting also affects the post merger profitability as purchase method increases the provisions against the profits. Though most of the deals are in the nature of acquisitions, only some cases are seen to have created goodwill account and in other cases the excess price paid and amalgamation expenses are adjusted with other reserves. Therefore, the study does not try to quantify the amount of goodwill to be amortized each year against profits but, have considered this matter while interpreting the results.

The *event study methodology* is used to find out the abnormal returns of the bidder banks on the

merger announcements. The event study method used in the present work is described below.

### i. Defining the Event Window

In the present study, bank merger announcement is the event. The announcement date is defined as the date when the merger valuation news appeared in the national dailies. For this, the study considers online editions of the dailies too. It may not be the official announcement of the merger.

### ii. Calculation of Abnormal Returns and Average Residuals

*MAAR (Market Adjusted Abnormal Return)* method is used to measure the abnormal returns around the merger event date. Abnormal Return (AR) is calculated using the following equation.

$$\text{AR}_{it} = R_{it} - R_{mt} \quad t = (-3 \text{ to } +3)$$

Where,

$\text{AR}_{it}$  = Abnormal return for the stock 'i' for the day 't'.

$R_{it}$  = Return for the stock 'i' for the day 't'.

$R_{mt}$  = Return of the Bank Nifty.

Return of the individual security is found by the following formula;

$$R_{it} = P_t - P_{t-1} / P_{t-1}$$

The same method is applicable to the calculation of return of the Bank Nifty. Based on the abnormal return figures, Average Residuals ( $\bar{a}$ ) are calculated. It is the simple arithmetic mean of the estimated abnormal return for all banks in the sample. The average residuals are computed for  $t = -3$  to  $+3$  trading days. The study considers average residuals of 3 trading days before the announcement date and 3 days after the announcement date.

### iii. Calculation of Cumulative Average Residuals (CAR)

Cumulative Average Residuals (CAR) is calculated by adding the previous daily average residuals which has been determined in the previous step. Mathematically,

$$CAR_t = \bar{a} + CAR_{t-1} = (-3 \text{ to } +3)$$

## V. Results of Accretion/Dilution Analysis

This section gives the results of accretion/dilution analysis in a comprehensive way. As explained in the analytical framework, this analysis does not count the growth prospects and synergies which may accrue in the post merger period. The effort is to indicate the impact of merger on the EPS of bidder and target banks. More clearly, this analysis will confirm whether the deal is accretive or dilutive. Out of the ten deals included in the present study, only two deals caused accretion in the EPS of bidder banks and remaining deals were dilutive. Following are the deals which resulted in the accretion of the EPS of the combined entity.

- i. ICICI Bank-Bank of Madura deal and,
- ii. State Bank of India- State Bank of Indore deal.

In both cases, the pre-merger EPS of the target banks were higher than that of the bidder banks. In the case of ICICI Bank-BoM deal, the BoM's EPS was equal to six times the EPS of the ICICI Bank. In SBI-State Bank of Indore Deal, EPS were Rs. 144.37 and Rs 175.87 respectively for the bidder and target banks. Further, both deals were dilutive for the target banks. As can be seen in the *Table 2*, following results have also come out of the analysis.

- i. HDFC Bank-Times Bank deal resulted in the dilution of EPS (Rs.0.03 and Rs. 2.06) for both the banks. While HDFC Bank's dilution is minor, the deal caused major wealth destruction for the Times Bank shareholders. The reason for the massive dilution for the target bank is that they didn't get a valuation which is based on the EPS of the banks.

- ii. Centurion Bank-Bank of Punjab, Centurion Bank of Punjab-LKB, IDBI Bank-UWB, ICICI Bank-Sangli Bank, HDFC Bank-CBoP, IOC-BhoB and ICICI Bank-BoR deals also have resulted in the wealth destruction for bidder banks as far as EPS is concerned. In the case of cash deals, interest payable on the consideration paid (Return on assets is treated as the opportunity cost of capital) is deducted from the combined earnings while calculating the Performa EPS<sup>1</sup>.
- iii. The rate of growth in the combined earnings was lesser than the growth in the number of shares. In other words, a high valuation diluted the EPS of the bidder banks.
- iv. In the case of Centurion Bank-Bank of Punjab, IDBI Bank-UWB, ICICI Bank-Sangli Bank and ICICI Bank-BoR deals, the target banks' net profits were negative.
- v. Based on the results, it can be argued that EPS Accretion/dilution was not a criterion in the valuation process. We have not considered the impact of method of accounting while calculating the combined income. Out of the ten deals, eight deals were accounted by the purchase method of amalgamation. Had we considered it, it would have resulted further dilution in the combined earnings.
- vi. Further, the analysis indicates that bidder banks were more optimistic while agreeing on the valuation as they considered future synergies of the deals rather than the current fundamentals of the targets.

**Table 2: Results of Accretion/Dilution Analysis**

Deal	HDFC Bank	Times Bank	ICICI Bank	Bank of Madura	Centurion Bank	Bank of Punjab	HDFC Bank	Centurion Bank of Punjab	ICICI Bank	Bank of Rajasthan
Exchange Ratio	1:5.75 (0.17)		2:1(2)		2.25:1 (2.25)		1:29 (0.035)		1:4.72 (0.21)	
Pre-merger number of shares (00's omitted )	2432800	1350000	1968200	117700	1566900	105000	3331400	15669000	11154587	16135010
Number of shares exchanged (00's omitted)	234782		235400		2362500		698839		313239	
Total number of shares in combined entity	266758261		220360000		392940000		403023950		1146782630	
Pre-merger net profit after tax (Rs/ million)	824	271	1053	456	251	(624)	11435	1214	40250	(-1021)
Combined earnings (Rs/ million)	1095		1509		(373)		12649		39229	
Pre-merger EPS	4.13	2.75	6.42	38.75	1.60	(5.94)	34.32	0.78	36.14	-6.33
Post-merger EPS	4.10	0.69	6.85	13.70	(0.95)	(2.14)	31.39	1.09	34.20	7.18
Accretion/Dilution	<b>Dilution</b>	<b>Dilution</b>	<b>Accretion</b>	<b>Dilution</b>	<b>Dilution</b>	<b>Accretion</b>	<b>Dilution</b>	<b>Accretion</b>	<b>Dilution</b>	<b>Accretion</b>
Accretion per share (Dilution per share)	<b>(0.03)</b>	<b>(2.06)</b>	<b>0.43</b>	<b>(25.15)</b>	<b>(2.55)</b>	<b>3.80</b>	<b>(2.93)</b>	<b>0.31</b>	<b>(1.94)</b>	<b>13.51</b>

**Table 2: Results of Accretion/Dilution Analysis (Contnd)**

Deal	IDBI Bank	United Western Bank	Centurion Bank of Punjab	Lord Krishna Bank	ICICI Bank	Sangli Bank	Indian Overseas Bank	Bharat Overseas Bank	State Bank of India	State Bank of Indore
Exchange Ratio	Cash Deal		7:5 (1.40)		1:9.25 (0.11)		Cash Deal		34:100 (0.34)	
Pre-merger number of shares(00's omitted )	7237900	537700	14003000	944453	8898239	313636	5448000	15750	6348839	175000
Number of shares exchanged (00's omitted)	NA		1322234		3455008		NA		1190**	
Total number of shares in combined entity	723790000		1540523420		1235324700		544800000		635002900	
Pre-merger net profit after tax(Rs/ million)	5885.50	(1064.80)	878	37	25400	(290)	7485.50	55.50	91663.90	3077.70
Combined earnings(Rs./ million)	4670*		915		25110		7517*		94741	
Pre-merger EPS	7.54	(1.98)	0.62	0.39	28.54	(9.16)	12.38	3.37	144.37	175.87
Post-merger EPS	6.45	NA	0.59	0.83	20.32	2.23	13.80	NA	149.19	50.72
Accretion/Dilution	<b>Dilution</b>	<b>NA</b>	<b>Dilution</b>	<b>Accretion</b>	<b>Dilution</b>	<b>Accretion</b>	<b>Accretion</b>	<b>NA</b>	<b>Accretion</b>	<b>Dilution</b>
Accretion per share (Dilution per share)	<b>1.09</b>	<b>NA</b>	<b>(0.03)</b>	<b>0.44</b>	<b>(8.22)</b>	<b>11.39</b>	<b>1.42</b>	<b>NA</b>	<b>4.88</b>	<b>(125.15)</b>

Note: This analysis does not consider the future growth and synergies.

\* Indicates combined earnings after deducting interest expenses on the purchase consideration paid.

\*\* In SBI-State bank of Indore deal, the bidder bank already had 98% shareholding in the target bank and it will reflect in the deal value and the number of shares issued

## VI. Announcement Effects

The above discussions clearly suggest that most of the deals are dilutive for the bidder banks. Except ICICI Bank- Bank of Madura, IOC-BhOB and SBI-State Bank of Indore deals were dilutive deals. As expected the dilutive deals caused wealth destruction in the market for bidder banks. Figure

1 and Figure 2 indicate a sharp downward trend in the abnormal returns of the bidder banks on the announcements of the valuation details of mergers.

At this juncture, it is to be noted that there is nothing wrong with initial temporary dilution in bank mergers. It is an accounting fact that if a firm acquires another bank with high P/E ratio, there

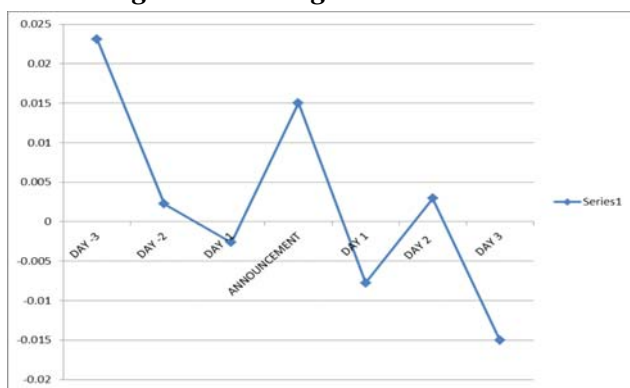
will be an automatic dilution. Similarly, dilution also happens if the acquiring bank overpays the target bank though such overpayments may be compensated by the future synergies. This work is not an attempt to quantify such synergies which is a difficult and hazardous job. But the central issue that this paper addresses is that whether the valuers have considered earnings accretion as a criterion to evaluate bank merger proposals or not. The study finds that valuers have not considered earnings accretion as a key factor in the valuation process.

**Table 3: Average Residuals and Cumulative Average Residuals**

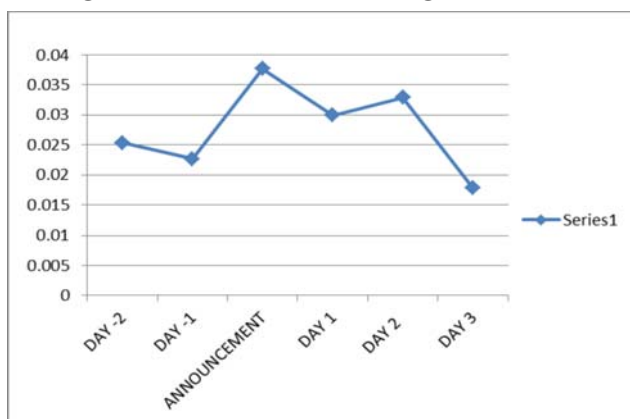
Day	AR	CAR
-3	.023085	.023085
-2	.002258	0.025343
-1	-0.00265	0.022697
0	0.015018	0.037714
1	-0.00777	0.029946
2	0.002925	0.032871
3	-0.01501	0.017858

Note: Calculated on the basis of secondary data

**Figure 1: Average Residuals**



**Figure 2: Cumulative Average Residuals**



## VII. Conclusion

Generally, when two firms come forward with a merger proposal, the management of the both the firms explain to the public the reasons for the merger, their future prospects and the benefit to the shareholders. But it is observed that majority of the questions remain unanswered especially those regarding the valuation aspects of the merger like what are the parameters taken for valuation, whether it is strategic valuation or financial valuation, what are the financial determinants of valuation, etc. It is a perplexing subject and in the practical sense, valuation models are approximations and simplifications of the valuator based on the rational choices and demonstrations. Even though, many deals have failed since the bidder banks overvalued the target banks, the recent evidence from the global context suggests significant increases in the target bank valuations. The study argues that earnings accretion which is a key valuation parameter is completely ignored in the valuation process. It implies that the valuers are very optimistic in the future synergy creation.

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# BENEFITS OF SOLAR ENERGY IN BUSINESS SECTOR IN RURAL AREA – A STUDY OF SANDWIP ISLAND IN BANGLADESH

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## ABSTRACT

*The main purpose of this study is to investigate the impact of solar energy on the users in small business in rural Bangladesh. For the study, Primary data are collected from 137 sample respondents from Sandwip Island in Chittagang, Bangladesh through a structured questionnaire which show that the people of this area are totally segregated from national grid electricity. The findings of this study show that majority of the respondents representing the sample of business owners in surveyed areas are male and low income business owners are more likely to use loan for installing solar panel. They are more likely satisfied with the use of solar panel and report that their life standard led by better economic condition have improved by receiving a number of benefits from installing solar panel such as increasing ability to earn more income, more daily working hours, high labor productivity, suitable working environment etc.*

**Keywords:** Business Subscribers, Solar Energy, Socio-Economic Benefit, Sandwip Island, Bangladesh.

## 1. INTRODUCTION:

Energy is the basic ingredients required to alleviate poverty and socio economic development.

Deficiency in energy sector is a major problem, which can hinder the development workflow of any country. For this reason improved energy supply is essential for socio-economic development and environment sustainability. In real life, the demand for electricity could not be met due to shortage of available generation capacity. In 2013-14, installed capacity was 10341 (maximum generation was 7356 MW and gap was 2985 MW) and electricity supplied by natural gas was almost 88.29% (Ministry of Finance 2014).

Bangladesh is one of the most electricity-deprived countries around the globe. In addition, absence of adequate investment in electricity generation and mass people awareness for reducing the misuse of electricity are major problems in this country. But to achieve the vision 2021 of electricity for

all in the country, it is a must to promptly address the issue of energy deficiency. In this context, renewable energy, the most promising source of energy can be the sustainable solution. Bangladesh is endowed with plentiful supply of renewable sources of energy such as solar, biomass, peat and hydro-power etc. As non-renewable sources of energy such as: fossil fuels oil, natural gas etc. will be completely used or economically depleted in future –renewable energy can take place as a sustainable source. In such a case, solar photovoltaic systems can economically meet the electricity demands of small business owners and residential households specially located in islands areas.

Rural business can increase their productivity, business hours and thus increase their turn –over. Many rural shops install solar powered televisions mobile phones to attract further businesses. Solar powered mobile phones are facilitating, communication and businesses in off-grid areas.

Grameen Shakti and its partner's organizations are responded with an innovative model to reach those business and households who do not have enough funds to install Solar Home Systems (SHSs). These systems have become popular among rural household and business that cannot afford larger system. This model has become popular in rural market where the owner of SHSs rents his additional lamps to neighboring shops who do not own one. In this way, everybody get benefits and increasing their income and reducing their energy cost.

## 2. RATIONALE OF THE STUDY

The people of islands are totally isolated from national grid facility. So, solar energy has high potentiality in rural islands areas to expand its use. Solar energy is beneficial to Bangladesh not only on environmental grounds but also on pure economic grounds. Out of 365 days we are getting sunlight almost 300 days. For this reason, to know the socio-economic condition of the small business owners in islands areas, a systematic research is necessary. From this study the concerns people will get useful idea to take future plan in order to enhance the use of solar energy in Bangladesh. Extensive works have been done in different countries of the world like India, China, Japan, USA and they are getting benefit from solar energy. But no remarkable survey has been done in Bangladesh. So, in depth, research of socio-economic impact of solar energy in rural Bangladesh is important.

## 3. LITERATURE REVIEW:

Many researches have been done both inside the country and abroad for examining the solar feasibility and its sustainability in consideration with present state of power generation by the non-renewable sources of power. Bhuiyan et al., (2000) in their study examined that life cycle cost of PV (photovoltaic) energy is lower than the cost of conventional electricity where there is no grid. It is also mentionable that the cost of PV energy is lower than the cost of petrol and diesel. In addition, PV generator is economically feasible in remote and rural areas of Bangladesh. Although its high

capital costs are still a major headache, solar PV technology may improve the quality life of rural people by creating income generating activities for small business. Researchers also found that the use of renewable energy is free from environmental pollution and atmospheric emission of CFC gas which causes greenhouse effect. In this connection, Islam et al., (2002) proved that the people of Bangladesh have accepted the concept of solar energy with pleasure because of its environment friendly and cost effective criteria. Mahamood et al., (2008) brought out that the solar energy creates employment opportunities for the rural people in addition to providing reliable clean and environment friendly supply of electricity in rural areas of Bangladesh. They further added that smooth electricity supply to the consumers can bring higher customer satisfaction and this service can help to improve the quality of life of the rural people and ultimately can lead to the socio-economic development of the country.

In south Asia, electricity demand has increased because of high population compared to the limited resources. It is observed that SAARC countries are located in geographical area where sunshine falls directly; as a result huge amount of heat is produced. So, renewable energy technologies can provide alternative sources of energy and Bangladesh is known to have a good potential for renewable energy.

Civilization is heading towards the zenith of technology where electricity is becoming an inevitable factor for socio-economic growth indicators of a country. Till now major portion of world's electricity demand is met by oil, coal, natural gas etc. But it is predicted that by the year of 2100, 75% of world's electricity demand is going to be fulfilled by solar energy. From several researches, we see that there is a proportionate relationship between a country's electricity usage and its GDP growth (Farheen et al., 2012). Although some attempts have been taken to meet the demand of electricity for rural people, still there is a large gap between demand and generation of power in Bangladesh. Hence, solar energy comes

with a bright prospect to show its opportunities in this country.

Rio and Burguilloc (2009) pointed out that renewable energy sources (RES) have a large potential to contribute to the sustainable development of specific territories by providing them with a wide variety of socio-economic benefits, including diversification of energy supply, enhanced regional and rural development opportunities, creation of domestic industry and employment opportunities. Adkins et al., (2010) stated in rural Malawi households that purchased a lantern, reported high levels of satisfaction with the LED lanterns as well as saving in annual kerosene expenditure comparable to the price of the lantern. This result suggests that similar market based models of LED lighting technology have the potential to replicate and scaled up in other off-grid regions in developing countries.

The rural communities of Bangladesh are the worst sufferers of the electricity crisis having limited or even in many cases no access to grid electricity. To find out the solution of this problem, some authors in Bangladesh also worked in favor of introducing solar energy in rural Bangladesh. Among them, Dey and Faraby (2010) found that improved telecommunication, better entertainment activities, involvement of rural women in mainstream economic activities, better healthcare and mass awareness, etc. in rural areas are the outstanding achievements from rapidly increasing use of solar home system (SHS) by the help of microfinance. Rahman et al., (2013) also investigates this prospect, trend and utilization of SHS technology and reviews the policies and opportunities of renewable energy technology towards sustainable development and climate change mitigation in Bangladesh.

While elucidating the scope of renewable energy with practical applications in Bangladesh Islam et al., (2010) show that solar energy is the most influential factor for generating electricity for running the industries and household consumption and the multifunctional solar cell is the promising candidate to get the better efficiency. In this regard,

Hasan et al., (2014) noted that by acknowledging the potential of renewable energy technologies (RETs) and associated energy storage, Bangladesh could possibly meet its unprecedented energy demand, thus increase electricity accessibility for all and as well as financial growth.

Grameen Shakti has developed an innovative model to reach those business and households who do not have enough funds to install a Solar Home System. This is nothing but sharing a Solar Home System among a group of people. This model has become very popular in rural market where the owner of Solar Home System rents his additional lamps to neighboring shops who do not own one. Thus, everybody get benefits- increasing their income and reducing their income and reducing their costs.

It is clear from the above discussion that solar energy is the primary source of meeting the energy crisis in rural off-grid areas of Bangladesh. People from these areas also have been using solar panel for their households, irrigation and small business works. The researchers so far done in this context in Bangladesh, such as Mazumder (2013): Impact of solar energy in rural Bangladesh, Biswas et al., (2004): Can photovoltaic help attain rural development in Bangladesh, Mondal (2010): Economic viability of solar home systems: Case study of Bangladesh none was found to be devoted to investigate into the impact of using solar energy by the small rural business on socio-economic development of Bangladesh. Finding the research gap, the authors have tried to take the initiative to research into the area under the title “Benefits of Solar Energy in Business sector in Rural Area – A Study of Sandwip Island in Bangladesh”

#### **4. OBJECTIVE OF THE STUDY:**

The objectives of the study are as follows:

1. to see the using solar energy in rural business basically in an island area.
2. to investigate the perception of the rural business owners as to their satisfaction, living standard and socio-economic benefit of using solar energy.



3. to find what additional benefits solar energy provides to the rural business owners compared to other sources.

## 5. SURVEY DESIGN AND METHODS:

The study is based mainly on primary data that have been collected by conducting a survey in Sandwip, a totally off-grid island in Chittagong, Bangladesh. In survey, only the rural business owners who use solar panel in their businesses are considered for the study purpose and defined as business subscribers. Here rural business includes business with small capital and trading in grocery, tailoring, tea, retail medicine, mobile servicing and reloading, poultry, laundry, dry fish and fish, barbering, tea bread etc. That's why the survey was conducted on December 2016 in Sandwip<sup>1</sup> in Chittagong, Bangladesh. Structured questionnaire have been given to a sample of 137 respondents living the island area of Sandwip who have small business in this island. Being totally isolated from the national electricity grid, the people of Sandwip find solar energy as a good alternative to grid electricity. So, renewable energy like solar energy is much more vital for this region. While analyzing the data, some tabular presentations have been used where percentage, mean, standard deviation and coefficient of variation have been calculated to understand and in some cases to compare the data obtained. Here, the STATA 11.0 statistical software has been used for the data analysis.

## 6. LIMITATIONS:

Most of the island areas in Bangladesh still remain detached from the national grid electricity. Access to these island areas is a bit hurdle-crossing job. So considering time and cost constraints the authors are not able to take a large sample from different islands areas, which might appear less representative towards addressing to the objectives of the study. But the socio-economic condition of the people especially, the business owners doing small business, living in the island areas in Bangladesh is almost similar to each other. Thus, it is believed that this work is conducted by taking sample from island areas, Sandwip, will bring forth at least a glimpse of implication for decision

making in promoting the use of solar energy in rural business in Bangladesh.<sup>1</sup>

## 7. RESULT AND FINDINGS:

In order to examine the socio-economic condition of the solar energy users in business, some demographic and socio-economic characteristics like gender; years of using solar panel; sources of financing the solar panel users; effects of using solar panel on economic condition, living standard and satisfaction level of solar panel users, monthly expense comparison between using solar panel and other sources of energy; additional benefits received from solar panel; benefit comparison before and after installation of solar panel; etc. have been analyzed. At the very outset of this section, an attempt is made to calculate the percentage of solar panel users in business by gender in Table 1.

Table 1 shows that among 137 business respondents who uses solar panel, 129 are male and 8 are female i.e., 94% of the total respondents are male and only 6% of them are female. In line with the number of male and female business subscribers, Table 2 is formed below to show the number of years of using solar panel by them.

Table 2 indicates number of years of using solar panel by gender. It is seen that a vast majority of both male and female respondents have been using solar panel for last 1 to 5 years representing 84% of male and 100% female. Only 16% male but no female respondents have been using solar panel for last 6 to 10 years. The rate of increase in using solar panel during the last 1 to 5 years is 8 times more for male compared to 6-10 years time span, but the entire female users were found to install solar panel during last 1 to 5 years. At this stage, it is necessary to highlight the means of financing the solar panel by the business respondents according to their gender and level of monthly income. Thus, Table 3 is used below to show the financial sources of solar panel users in business by gender and by level of monthly income.

Table 3 shows that out of 137, male respondents are 80(62%) who purchase solar panel by taking

loan, 27 (21%) purchase it by using personal savings and 22 (17%) by using other means. Out of 8 female respondents, 5 respondents (63%) purchase solar panel by taking loan and 3 (37%) purchase it by using personal savings. In this connection, Table 3 also highlights the means of financing the solar panel by the respondents according to their level of monthly income. Here the respondents are divided into three groups in terms of their monthly income ranging from below TK. 20,000 (lower income group), TK. 20,000 to TK. 39,999 (lower middle income group), and TK. 40,000 plus (middle income group).

Table 3 indicates that a vast majority of the respondents 122(89%) are using solar panel belongs to the lower income group compared to other two groups where lower middle income group consist only 15(11%) respondents and middle income group has no respondent. It is observed that under lower income group the respondents prefer loan (67%) to savings (20%) and other means (13%) for financing solar panel. But, this position is slightly changed in the lower-middle income group, where 40% of them are likely to equally prefer personal savings and other means, and 20% of them prefer loan where none is found to belong to the middle income group.

On the other hand, a large portion (62%) of the respondents prefers loan financing compared to personal savings (22%) and other means (16%). Although the rate of respondents in lower income group using loan (96%), savings (80%) and other means (73%) is higher than other income level groups, a significant share comes from the lower middle income group where the rate of respondents using loan (4%) , savings (20%) and other means (27%) is more than the lower –middle income group.

At this backdrop, attempt is taken to know the respondents reaction to the change in their economic condition, life standard, and satisfaction level with respect to the number of using the solar panel. Table 4 below summarizes all these together.

Table 4 shows that the majority of the respondents, irrespective of the years of using solar panel, opine in favor of increasing their economic condition (93%) , living standard (91%), and satisfaction level (88%) after the installation of solar panel. The rate of positive responses in this respect is reportedly higher for living standard (97%) and satisfaction level (90%) of the respondents using solar panel for the last 1 to 5 years than those of 6 to 10 years. Although this rate is remarkably high (92%) for economic condition of the respondents of that last 1 to 5 years group, it is 100% for the respondents of 6 to 10 years group.

Under the above circumstances, the authors also attempt to make a comparative study by taking into consideration i) the comparative benefits of using solar panel and the other sources of non renewable energy, such as kerosene, wood, electricity etc. by the business subscribers and ii) the comparative benefits received by the business subscribers before and after the use of solar panel. Now, the comparative benefits of using solar panel and other sources of energy have been analyzed by an opinion survey in Table 5 and 6 below.

98% of the respondents who use both kerosene and solar panel as the sources of energy view that kerosene is more expensive than solar panel and only 2% say that kerosene is less expensive. Among those who use wood and solar panel 93% remark that wood is more expensive and 7% tell that it is less expensive. But, 100% users agree that charcoal is more expensive.

In this connection, the respondents are asked further to express their views about what additional benefits they can enjoy from solar panel over kerosene, wood and charcoal. Their answers corresponding to the number of years of using solar panel have been summarized in Table 6 below.

Table 6 shows that 137 of the respondents by using solar during the period from last 1-10 years (divided into 1-5 years and 6-10 years) are characterized by  $B_1$ ,  $B_2$ , and  $B_3$  for labor productivity, suitable work environment, and least cost respectively. The table further portrays that overall 25% of the respondents speak in favor of

B1, 21% in favor of B2 and 54% of B3 as to considering total number of years of using solar panel. Those who have been using solar panel for 1-5 years, 25% of them favor B1, 19% favor B2 and 56% favor B3. Similarly, in 6-10 years range, 25% is in favor of B1, 30% in favor of B2 and 45% in favor of B3. It is observed that, majority of the respondents irrespective of the number of years of using solar panel support for B3 as the additional benefits received from solar panel and other sources of energy they use.

Some descriptive statistics (mean, standard deviation, and coefficient of variation) in addition to the above findings have been used and compared in this level in Table 7 below for two important benefits monthly income and daily hours worked, received before and after installation of solar panel in order to see the impact of using solar panel on the economic condition of the business subscribers.

87 respondents respond on their monthly income before installation of solar panel while 137 respondents on monthly income after installation. Here, 92 respondents are found to respond on daily hours worked before installation of solar panel while 91 respondents on daily hours worked after installation solar panel.

Table 7 shows that the average monthly income of business-owners is Tk. 9840 before the installation of solar panel but it has become Tk. 12,810 showing an increase of 30% after the installation. Correspondingly, 13% decrease in coefficient of variation of this benefit indicates that the monthly income earned by the business as are likely to be more consistent. Similarly, the average daily working hours of the business owners have increased by 30% from 9 hours to 11.7033 hours after the installation of solar panel in spite of an increase in the coefficient of variation of this benefit is likely to be reported by 28% from 25% to 53%.

In addition to above calculation relating to see the impact of using solar panel in business, the authors try to know whether the business respondents who use solar panel in their businesses also use it in their houses or not, and this is reflected by Table 8

and 9 below. This is actually done to understand the fact that to what extent solar panel users in business feels the necessity of those in their houses too.

Table 8 shows that a comparative picture of the respondents using solar panel in business also use or do not use the same at home. The table indicates 45% respondents have solar panel at home but 55% of them do not irrespective of the gender. Taking male and female respondents separately into consideration, it is also seen that 55% of male and 62% of female respondents do not have solar panel at home, which are sharply higher than those who have solar panel at home.

The significant proportions of business owners (55% in total) who use solar panel at their businesses but do not use it at home express their view that due to financial constraints they fail to install solar panel at home. Majority of them mention that if they get financial support or subsidy, they will install solar panel in their home as well. Table 9 below however, depicts the position of the respondents without solar panel at home as to consider the same at their home.

Table 9 shows that a vast majority (92%) of the respondents without solar panel at home, irrespective of the gender, considers to install solar panel in their house if they get financial support. Considering male and female respondents separately in this line, the rate is found to be 92% for male and 100% for female respondents.

## 8. CONCLUDING REMARKS AND IMPLICATIONS:

Significant findings from the study that 94% of the total respondents are male and only 6% of them are female. The sample respondents who are using solar panel for longer time are found more likely to report improvement after using solar panel than those who are using it for a shorter period. It is observed that under lower income group the respondents prefer loan (67%) to savings (20%) and other means (13%) for financing solar panel. Moreover, the respondents from lower income group are also found more likely to report

improvement in economic condition with the use of solar panel. Majority of the respondents, irrespective of the years of using solar panel, opine in favor of increasing their economic condition (93%), living standard (91%), and satisfaction level (88%) after the installation of solar panel. 98% of the respondents who use both kerosene and solar panel as the sources of energy view that kerosene is more expensive than solar panel and only 2% say that kerosene is less expensive.

Due to using solar energy, their additional benefits have increased such as labor productivity and suitable work environment. A significant development has been observed in their income. Business owners also reported that the solar energy is cost-effective compared to other sources of energy, such as kerosene and wood. Besides, solar energy is found to provide more benefits in terms of better quality of light which led to reduce air pollution improve social status and enhance living standard. It is also unfolded that if the business owner use solar panel in their houses too, they are more likely to report benefit from this solar energy. As we found from the study by installation solar panel users can increase their daily hours worked as monthly income, so the expansion of using solar panel is now in demand. But it is also seen from the study due to the insolvency the rural marginal businessman cannot afford by their own. That's why, they need loan facilities either in cash or in kind or any subsidies from the Government or private institutions.

Off grid areas are totally segregated from national electricity grid and Bangladesh is endowed with vast resources of solar radiation that's why solar energy is blessing for them. In order to increase the expansion of solar energy in the off grid regions more financial, technical and maintenance support have to be ensured. Solar panel and related accessories should be provided with subsidized way to the low income earners living in the island area. This study is an initiative towards investigating for the status of small business owner's as to their socio-economic condition after using solar panel will make some out to the policy maker to expand solar energy in islands areas in

Bangladesh. In order to remove the impediments and increase effectiveness the SHSs in rural area following necessary actions can be taken

1. Appropriate financial arrangements, including payment installments, fee for services, subsidy, technical and legal support for organizations dealing to set up in the solar sector is necessary.
2. Technical training is essential for developing local technical support, which can help make the project sustainable. Women also should be invited for training.
3. Sustainable and Renewable Energy Development Authority should be more active to popularize the solar electricity in rural area of Bangladesh.
4. To increase acceptability of the technology by user accessories of solar system should be available locally so that the users can buy them easily when required.
5. To increase affordability local production of SHS components is necessary to reduce the selling price of SHS.

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**Table 1: Percentage of Solar Panel Users in Business by Gender**

Gender	Solar panel in Business	
	N	%
Male	129	94%
Female	08	6%
Total	137	100%

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 2: Number of Years of Using Solar Panel in Business by Gender**

	1-5 Years		6-10 Years		Total	
Gender	N	%	N	%	N	%
Male	109	84%	20	16%	129	100%
Female	8	100%	0	0%	8	100%
Total	117	85%	20	15%	137	100%

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 3: Financial Sources of Solar Panel users & Different Level of Monthly income**

Table 5: Financial sources of Solar Panel users & Different Level of Monthly income								
	Sources of financing solar panel							
	Loan		Savings		Other means		Total	
	Gender							
	N	%	N	%	N	%	N	%
Male	80	62%	27	21%	22	17%	129	100%
Female	5	63%	3	37%	0	0	8	100%
Total	85	62%	30	22%	22	16%	137	100%
	Level of monthly income							
	N	%	N	%	N	%	N	%
	%		%		%		%	
Below Tk.20,000	82	67%	24	20%	16	13%	122	100%
	96%		80%		73%		89%	
Tk.20,000-Tk.39,999	3	20%	6	40%	6	40%	15	100%
	4%		20%		27%		11%	
40,000 plus	0	0	0	0	0	0	0	0
Total	85	62%	30	22%	22	16%	137	100%
	100%		100%		100		100%	

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 4: Users reaction to the change in economic condition, life standard and satisfaction level**

State of reaction	Years of using solar panel					
	1-5 Years		6-10 Years		Total	
	N	%	N	%	N	%
Economic condition						
Yes	108	92%	20	100%	128	93%
No	9	8%	0	0%	09	7%
	117	85%	20	15%	137	100%
Life standard						
Yes	113	97%	12	60%	125	91%
No	4	3%	8	40%	12	9%
	117	85%	20	15%	137	100%
Satisfaction level						
Yes	105	90%	16	80%	121	88%
No	12	10%	4	16%	16	12%
	117	85%	20	15%	137	100%

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 5: Respondents' opinion comparing the monthly expenses of solar panel to the other sources of energy they use**

Other Sources of Energy Used	More Expensive than Solar Panel		Less Expensive than Solar Panel		Total	
	N	%	N	%	N	%
Kerosene	79	98%	2	2%	81	100%
Wood	26	93%	2	7%	28	100%
Charcoal	28	100%	0	0%	28	100%

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 6: Respondents' opinion about additional benefits they received by the number years using solar panel**

Number of years of using Solar Panel	Frequency	Additional Benefits received					
		B1 (Labor Productivity)		B2 (Suitable Work Environment)		B3 (Least Cost)	
		N	%	N	%	N	%
1-5	117	29	25%	23	19%	65	56%
6-10	20	5	25%	6	30%	9	45%
Total	137	34	25%	29	21%	74	54%

Source: Survey data. Note: Total respondents are 137. N = Frequency, % = Percentage

**Table 7: Comparison of some benefits before and after installation of solar panel**

Benefits	Before Installation of Solar panel				After Installation of Solar panel				Change in (%)	
	N	Mean	S.D.	C.V.	N	Mean	S.D.	C.V.	Mean	C.V.
Monthly Income	87	Tk.9840	Tk.5228	0.53	137	Tk.12810	Tk.5061	0.40	+0.30	-0.13
Daily Hours Worked	92	9 hrs	2.2629 hrs	0.25	91	11.7033 hrs	6.1454 hrs	0.53	+0.30	+0.28

Source: Survey data. [N= frequency, S.D. = standard deviation, and C.V. = coefficient of variation]Note: Total respondents are 137.

**Table 8: Solar panel users in business also use the same at home by gender**

Gender	With Solar at Home		Without Solar at Home		Total	
	N	%	N	%	N	%
Male	58	45%	71	55%	129	100%
Female	3	38%	5	62%	8	100%
Total	61	45%	76	55%	137	100%

Source: Survey data. Note: 137 respondents provided this information. N = Frequency, % = Percentage

**Table 9: Business owners considering solar panel at home by gender**

Gender	Not considering solar panel at home		Considering solar panel at home		Total	
	N	%	N	%	N	%
Male	6	8%	65	92%	71	100%
Female	0	0	5	100%	5	100%
Total	6	8%	70	92%	76	100%

Source: Survey data. Note: Out of 137 respondents. N = Frequency, % = Percentage

# IMPACT OF OCCUPATIONAL STRESS ON PERSONAL LIFE: A STUDY OF PRIVATE SECTOR LIFE INSURANCE COMPANIES IN TELANGANA STATE

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## ABSTRACT

*The concept Occupational Stress has become a major malevolence for employees at their workplace. More than ever in insurance sector the productivity of private sector employees is unfavourably weighed down owing to the stress that they experience at workplace. Over the years of research studies undergone in the areas of stress at occupation, it was detected that more studies ponder on the occupational stress and its collision on employees' performance and their satisfaction. The present study instigates with an attention to draw the hidden facts about the impact of occupational stress on employees' personal life with special reference to private life insurance companies. To navigate this study, the research scaffold has been set to investigate the impact of occupational stress on employees' personal life of select private sector life insurance companies located in Telangana State. Two colossal life insurance companies viz. SBI Life and Reliance-Nippon were taken into consideration to conduct the research and explore the supposed results. With inclusive of both the companies a sample size of 350 employees was selected randomly depending on the population size per each company.*

**Key Words: Stress, Occupational Stress, Personal Life, Life Insurance Companies.**

## 1. INTRODUCTION:

Occupational stress is widely known to affect all professions and category of workers. It is of great concern to management, employees and other stakeholders of the organization; every job seems to have a potential stressor. Continuous effort on research over decades has provided us with an insight on occupational stress. Previous research studies suggest that nature and extent of occupational stress varies across industry and also in business establishments within an industry. The reasoning could be as occupational stress in the result of interaction of an individual with the work environment and as every job has its own typical

environment and every person is different from another, the nature and effect of stress changes from job to job and person to person.

Occupational Stress is a predestined stumbling block seen all over the world stretching among the major areas like organizations, professions, employers, employees, families and even in every part of society next of kin with human kind (karimi and alipour, 2011). Occupational stress is considered to be a worldwide problem and increasing steadily in majority of developed and developing nations where the trade is growing rapidly. Also, poor working conditions, long working hours by the side of low salaries box up



and create stress at employees' occupation which lay impact on their personal life. It is very much compulsory to take a holistic depicted contiguous of occupational by embracing the effects of personality, institutional factors and the work-family interactions in the acuity of occupational stress (Laiba Dar and others, 2011). The study of Organizational behaviour with specified reasons has become an important topic for the term occupational stress (Dr. A.V.V. Siva Prasad, 2013). Over the times of yore by considering last 30 years, various segments of employees experiencing occupational stress which is closely allied with the health and safety of individuals and has unambiguous repercussions for the well-being of organizations (Rees, 1995; & Redfern, 2000). Occupational stress can be defined as the harmful physical and emotional responses that occur when the requirements of the job do not match the capabilities, resources, or needs of the employee (Siva Prasad, Vijaya Kumar and Siva Kumar, 2014).

Workplaces were renovated by globalization, privatization, process reengineering, mergers and acquisitions, strategic alliances, joint ventures and the like. As a result, working life of today is characterized by continuous and often extensive changes. In quest of handling such situation, organizations are ardent in minimizing costs, and this result are downsizing the organizations in diverse upshots in the evocative of few employees losing their jobs, some employees who keep their jobs expected to work harder/efficiently and to cope with uncertainty about their future employment. The advent of scientific insurrection in all parts of human life coupled with globalization and privatization policies that are drastically changed conformist moulds in all sectors. With this regard, the insurance sector has no exemption to experience stressful fraught by the employees of concerned service sector. During the last decade it is observed that the insurance sector saw severe changes in insurance sector akin to technological advancements, policy up gradation due to globalization and liberalization, amplified competition with more and more entries of private level insurance companies, etc. may

possibly be major reasons for employees in insurance companies especially from private sector are experiencing high level of stress at their occupation which in turn injures the positive relationship between the employee and his/her family. Due to rapid economic growth, urbanization and popular education (Chan, 2002) the insurance industry expanded considerably in the 19<sup>th</sup> century, resulting in acute competitiveness and rivalry between companies (Chan, 2002; Lai, Chan, Ko & Boey, 2000). The impact of this competitiveness is felt amongst employees in the insurance industry by engendering general feelings of distrust, tension, strain in interpersonal relations, jealousy from colleagues, interpersonal conflicts and coping with sustained pressure to produce/perform (Lai *et al.*, 2000).

## 2. Review of Literature:

*Nurnazirah Jamadin, Samsiah Mohamad, Zurwina Syarkawi, and Fauziah Noordin*<sup>1</sup> in the present study the learners said that the increasing level of work-family conflict will show high impact on occurrence of job stress for an employee. The common incongruity between demands of job and family leads to the rise of conflict between employees works life and personal life. The employer and employee have to a joint venture to reduce this work-family conflict which results a potential improvement in performance of both organization and employee.

*P. Marish Kumar, Dr. T. Tamilmathi*<sup>2</sup> says that stress is a highly delicate and observable fact which widely varies in indistinguishable circumstances for various purposes. They felt that long working hours, job insecurity, hefty job responsibilities with limited flexibilities might led to workplace stress especially on the employees of insurance sector where we can find the suitable work situations with the mentioned factors that cause stress which downfalls the employee productivity as well as organizations potentiality in the market. So, they referred that the insurance companies should adopt proper stress management and reducing techniques for their employees to manage their stress and increase job productivity that yields positive results.

**Dr.S.S. Jeyaraj**<sup>3</sup>, in this research says that the occupational stress at workplace has become a major problem in teaching. He opined that the act of reducing occupational stress among teachers will lead efficient and effective service to the society from them. The researcher majorly concentrated on facts of reducing occupational stress which results in some benefits which among them is like it provides pleasurable working environment, improved teaching morale, reduction in workplace accidents, and decrease in absenteeism and increase in education standards.

**Dr. A.V.V. Siva Prasad**<sup>4</sup>, concluded that yoga is a very important technique to control stress in job and also it is an answer for healing or reducing stress among male and female employees in their job roles. He suggested that the insurance companies should spend some time and resources to implement stress reduction programmes like 'Yoga' for their employees to make them to reduce their stress and everyone would agree with his saying that the insurance companies should always focus on "maintenance", rather than "repair".

**Syed Mubasher, Muhammad Asif, AftabQadir, Shabana Nawaz**<sup>5</sup>, designed this study to evaluate and analyze the impact of job stress on employees' productivity in public health sector. The researchers identified that there is a negative correlation between lower rewards, inflexible working hours, employee personal issues, uncontrolled working environment with employee productivity. After finding out the problem in this study, the researchers has suggested that, an effective monitoring system with proper remedial measures should be implemented to reduce employees' workplace stress.

**Aasia Manzoor, Hadia Awan, Sabita Mariam**<sup>6</sup> in this study they concentrated to exhibit the levels of stress that effects employees of textile sector in Faisalabad. Here, the researchers identified that, work pressure, long working hours, too much overload of job assignments, job insecurity are the major stressors of job stress among the textile employees. Enormously, by analyzing the data with correlation analysis it was found that, even

the employees experiencing job stress will never let their performance down. The results shows that, there is no relationship between job stress and employee performance.

**S. Bell, Rajendran, Theiler**<sup>7</sup> has conducted a study among Australian academicians to look into the relationship between perceived job stress and work-life balance/conflict and wellbeing/ill-being. Their learning highlighted that perceived job pressure stress and job threat stress forecast increased work-life conflict with ill-being and decreased work-life balance with wellbeing. This explains us that, the academicians with heavy job pressure and threat will gradually reduce their balance among work and personal life; at the same time there occurs a probability of conflict between work and life. Sense of anxiety and getting inferior by risky work assignments will lead to rise of work-life conflict and fall of work-life balance.

**Mu.Subramanian, Anjali.N**<sup>8</sup>, emphasizes that quality of work life in engineering industry is better than textile industry. As, these two industries bear major part of Indian industry, these both industries has to enhance the quality of work life among employees' and provide proper motivation and morale of the employees to reduce their workplace stress and overcome their hurdles which results in improvement in health of Indian Industrial Sector.

**G. Lokanadha Reddy, R. Poornima**<sup>9</sup>, says that most of the university teachers are aware of temperate and elevated levels of occupational stress which leads to professional burnout. The researchers after their analysis obtained that there is a positive correlation between workplace stress and professional burnout among university teachers. The final conclusion reports that stress management techniques such as yoga, sports, proper training sessions to get control over emotional intelligence, adopting a proper behavioural management techniques, which leads to success in avoiding stress at workplace.

**Mekhla Chadha, Karan Sood, S.Malhotra**<sup>10</sup>, argues that there is certain impact of organization stress on quality of life of an employee; in this regard the researchers have taken the employees

of primary and secondary school teachers as their sample. By the wide-ranging study of the data, the opinions shared by primary and secondary school teachers are quite different towards their self role distance where they are unable to play their job role according to self concept and forcing to work against their own concept in the job role with hefty expectations from their job role.

### 2.1 Research Gap:

Numerous studies have been undertaken on the notion of occupational stress majorly in banking and education sectors. In this quest of research it is observed that merely limited studies has been conducted on occupational stress especially in insurance sector. Also, it was tinted solitary research works undergone to explore the facts about impact of occupational stress on employees' personal life. By means of this, the researcher identified the above cited gap and formulated the statement of the problem.

### 2.2 Statement of the problem:

With strong credence of the identified gap the following research problem has been formulated.

**“Impact of Occupational Stress on personal life: A study on private sector life insurance companies”.**

### 2.3 Objectives of the Study:

1. To identify the employee perceptions on occupational stress and its impact on their personal life.
2. To measure the level and impact of job stress on the personal life of insurance employees based on gender, age groups and experience.

### 2.4 Hypotheses of the study:

In the way of tracking down the expected harvest with the help of objectives, research hypotheses were devised to test and find out the significant differences between the respondents perceptions towards the impact of occupational stress on their personal life. The following hypotheses premeditated depending on the demographical factors like gender, and various age groups. The hypothesis that is formulated to support the

research problem can be entitled as *null hypothesis* ( $H_0$ ).

**$H_{01}$ :** There is no significant difference between the employees' gender and the impact of occupational stress on their personal life.

**$H_{02}$ :** There is no significant difference between selected age groups of employees and the impact of occupational stress on their personal life.

**$H_{03}$ :** There is no significant difference between the employees experience and the impact of occupational stress on their personal life.

### 2.5 Scope of the study:

The major intention to perform this research study is to evaluate the level of occupational stress experiencing by the employees of private life insurance companies. An added inquisitiveness for this research is to explore the employees' perception about impact of occupational stress on their personal life. For this purpose, the research survey was conducted on 200 employees from two private life insurance companies were selected in Telangana State viz. SBI Life insurance and Reliance-Nippon Life insurance. With the help of demographical data, the collected data was analyzed with respect to impact of occupational stress on insurance employees' personal life.

### 3. Research Methodology:

**3.1 Research Design:** Research design carried out in the study is purely based on casual research design with a systemized plan for collecting data and analyzing the data.

**3.2 Sampling Design:** From Telangana State, out of 31 districts '5' districts (Khammam, Badradri Kothagudem, Nalgonda, Suryapet, and Mahabubabad) were selected with the help of cluster sampling method. Among these 5 districts there are 9 branches of SBI Life and 8 branches of Reliance Nippon. Within these branches around 300 employees are working and the researcher has drawn 200 sample units using purposive sampling method. Questionnaire was administered on these 200 employees and appropriate responses were solicited. But only 168 employees provided

appropriate and consistent responses and the researcher has considered those 168 respondents for data analysis.

### 3.3 Data Collection:

1. *Primary Data* collection is done with the help of well-designed research survey questionnaire to evaluate the tangible piece of evidence allied with the level of occupational stress and its impact on personal life of life insurance employees in private sector.
2. *Secondary Data* has been generated with the far-reaching literature review of existing information correlated to present study to see the sights of occupational stress and its effects in an assortment of business areas. The data also been incarcerated from various journals, articles, text books, online publications, and academic reports to prop up the purpose of the study.

### 3.4 Statistical Tools for Analysis:

The primary data collected through Likert scale can be analysed by applying Karl Pearson's Correlation Coefficient and ANOVA-One way classification to look at the relation between two or more variables. Microsoft Office Excel-2007 is used to apply the above statistical tools to analyse the data to obtain the results of the study.

### 4. Data Analysis & Interpretation:

Three categorical variables involved in the demographical data were used in the study explicitly Gender, Age groups and experience level. Correlation Coefficient was used to classify the relationship between male and female insurance employees. Whereas, ANOVA One-Way Classification has been used to check the differences between the respondent groups specifically employees from various age groups and experience levels. The distribution of sample across categorized variables (gender, age groups and experience level) are given below:

#### a) Gender:

Gender	Frequency	Percentage
Male	123	73%
Female	45	27%
Total	168	100%

Source: Questionnaire

#### b) Age Groups:

Age Group	Frequency	Percentage
20 – 30 Years	82	49%
30 – 40 Years	46	27%
40 – 50 Years	32	19%
50 – 60 Years	8	5%
Total	168	100%

Source: Questionnaire

#### c) Experience Levels:

Experience	Frequency	Percentage
0 – 10 Years	116	69%
10 – 20 Years	35	21%
20 – 30 Years	13	08%
Above 30 Years	4	02%
Total	168	100%

Source: Questionnaire

As per the listed categorical variables, the analysis of data has been progressed as below in a tabular manner.

#### 4.1 Gender base statistical analysis:

Here, the primary data is classified based on respondents' gender and analysed using Karl Pearson's Correlation Coefficient to weigh up the relation between male and female employees of select private life insurance companies. Among the 168 respondents, there are 123 male and 45 female respondents.



**Table – 4.A: Gender based Impact of Occupational Stress on Employees’ Personal Life**

S.NO	STATEMENTS	GENDER	Correlation (r)	Type of Correlation (r)
1	My official work role does not allow me to have enough time with my family.	Male	0.75	Positive
		Female		
2	Due to hefty job demands my family and friends complain that I do not spend time with them.	Male	0.94	Positive
		Female		
3	My stress at work makes me to neglect the future of children.	Male	1.00	Perfectly Positive
		Female		
4	Stress at work makes me to neglect the health of my family members.	Male	0.95	Positive
		Female		
5	Heavy workload may break down to have recreational time with family.	Male	0.91	Positive
		Female		
6	I will give greater priority to work over family.	Male	-0.71	Negative
		Female		
7	I feel very inactive in my personal life due to occupational stress.	Male	-0.54	Negative
		Female		
8	I have to neglect some tasks in my job because I have too much to do for my family.	Male	0.97	Positive
		Female		
9	Influence of Occupational Stress on health issues.	Male	0.97	Positive
		Female		
10	While spending time with my wife and children, I forget all the office worries.	Male	-0.67	Negative
		Female		

**Source: Questionnaire**

**Interpretation:** From the above analysis, the relationship between male and female employees is looking positive in 7 decisive factors mentioned above. It was observed that there is some antagonism among the responses given by male and female employees and technically it is proved with negative type of correlation between the employees. The male employees are giving more priority to work over family when compared with female ( $r = -0.71$ ). The female employees feel very inactive in personal life over male ( $r = -0.54$ ). The responses from male are not linking with female in terms of forgetting all office worries while spending time with family members.

#### **4.2 Statistical analysis based on “Age Groups” and “Experience Level”:**

Here, the primary data is classified based on respondents’ age groups and analysed using non-parametric test i.e. ANOVA One Way Classification to check the difference between various age groups of employees from select private life insurance companies. The following table consists of the subject, F-statistical value, F-critical value and the status of hypotheses.

**Table – 4.B: Demographic Profile wise ANOVA results for Impact of Occupational Stress on Employees' Personal Life in private life insurance companies.**

S.NO	STATEMENTS	Age Groups		Experience	
		F-Statistical Value	H0 acc/rej	F-Statistical Value	H0 acc/rej
1	My official work role does not allow me to have enough time with my family.	1.44	Accepted	1.84	Accepted
2	My family and friends complain that I do not spend time with them. It is due to heavy demands of my Job.	1.03	Accepted	1.93	Accepted
3	My stress at work makes me to neglect the future and academics of children.	1.08	Accepted	2.36	Accepted
4	Stress at work makes me to neglect the health of my family members.	3.17	Accepted	3.07	Accepted
5	Due to heavy work at office I am not able to spare time for recreational activities along with my family members.	3.67	Rejected	4.65	Rejected
6	If I have to choose between work and family. I will give greater priority to work over family.	3.40	Accepted	4.35	Accepted
7	I feel very inactive in my personal life due to occupational stress.	1.16	Accepted	1.65	Accepted
8	I have to neglect some tasks in my job because I have too much to do for my family.	2.89	Accepted	3.08	Accepted
9	The Occupational Stress leads me to physical/psychological issues which suffers me and my family also.	6.74	Rejected	6.97	Rejected
10	While spending time with my wife and children, I forget all the office worries.	3.15	Accepted	3.25	Accepted

**Source: Questionnaire****F-critical value: 3.49**

From the above analysis, it is observed that in most of the above cited vital aspects recite that there is no significant difference between the responses given by the insurance employees with different age groups and experience levels. But, it is observed that in two facets viz. “Unable to spend time with family due to heavy work (Q5)” and “influence of occupational stress on health issues (Q9)” there is significant difference between

employees with respect to their age groups and experience levels. The psychological assessment of employees may be the major reason for occurrence of differences among the employees.

### 5. Findings & Conclusion:

The findings from this study highlights that female employees are in stressful situations because, as a well-known fact a female has to manage entire family related activities; if they are working in a

firm it makes them to fall in stressful situations while balancing both family and work. With this regard the results of the study shows that the female employees will give more preference to their family over work and ignores work related issues in spending time with family members when compared to male employees which confirms negative relationship. With respect to selected age groups, there occurs difference between responses towards balancing their stress at occupation with family refreshment time and experiencing physical and psychological problems and the same differential situations are observed even in terms of employees' experience levels.

### 6. Limitations and Scope of Future Research:

The present study is restricted only to five districts in Telangana State. There are various areas that can be studied in the concept of employees' occupational stress and its impact on them. Here, in this study the researcher has stressed on identifying the perceptions of life insurance employees about the occupational stress and its impact on their personal life. So, in this study the results show only judgments on the proposed research title. But, there is a massive scope to continue this research in same area by increasing the population and sample size by means of selecting all districts of Telangana State and also with the course of adopting coping strategies or techniques by employees to balance sturdy relations with their family members by circumventing the impact of occupational stress.

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# EVOLUTION OF RETAIL SECTOR IN INDIA

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## ABSTRACT

*The retail sector scenario in India is very dynamic and varied. With the phenomenal growth in this sector, India has become an attractive destination for the foreign players. Which witnessed radical changes in the formats and retail marketing structure in the past few decades. This rapid growth has shown the way to invasion of organized retailing in both urban and rural areas. Traditionally the very nature of Indian retail sector is fragmented and unorganized. All these factors has led to a continuous change in consumer purchase behavior and marketing philosophies. The present paper is devoted to explain the concepts of retailing and explore the various stages through which the retail industry has evolved.*

## 1. INTRODUCTION

Retailing can be traced back to the barter system where exchange of goods took place. With the evolution of human civilization the business function has transformed from producer-to-consumer to business-to-consumer. Thus retailing is an activity which sells products and services to customers in the final stage of supply chain marketing. It does this by procuring in large scale quantities from manufacturers and supplying them to customers on a relatively small scale for their personal consumption or for family. Retailer is a person or agent or agency or company or organization who is instrumental in reaching the goods or merchandise or services to the end user or ultimate consumer. All the efforts of a retailers is to manage the business by attracting the consumers to their stores and make them buy more and make repeat purchase with them.

Retail marketing has an element of eternity in the formats of markets and the marketing ethos. In the post industrialization era, economies have grown, purchasing power of the people and markets have grown from strength to strength. Marketing knowledge and strategies have created new styles of markets not as a replacement of the old styles but as an addition to the existing. The evolutionary process of marketing has undergone sea change, still accommodating the old style of traditional

markets. Centuries after organized styles of marketing unorganized marketing is also living by its side.

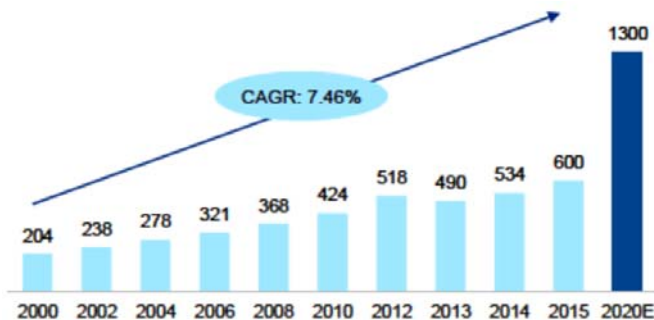
This is evident with the vast majority of middle and low income segments in India still buy from one of the millions of tiny kirana stores. In the past, researchers like Nikhilesh, Ruby et al<sup>1</sup> in their study laid emphasis on coexistence of both traditional and modern retail formats. This is because of India's unique context – in terms of history, demographics, geography, and traditions. Indian population living in villages as well towns and cities continue the rural practices of buying in unorganized markets and neighborhood shops. This paper focuses on retail marketing in food and grocery sector which is the largest segment that consumes every household irrespective of their socio-economic strata.

## Market size of Indian retail sector

The retail sector in India is emerging as one of the largest sectors in the economy. Indian retail industry has matured over the years; although it is still highly fragmented, with an estimated 12 to 15 million outlets. The total market size was estimated to be around USD600 billion in 2015, thereby registering a CAGR(Compound Annual Growth Rate) of 7.45 per cent since 2000. Retail industry is expected to grow to USD1.3 trillion by 2020, registering growth at a CAGR of 7.46 per



cent between 2000-2015<sup>2</sup>. Going forward, the overall retail sector growth is likely to witness a CAGR of 12-13 per cent, which would be worth INR55 trillion in 2018-19 (KPMG Report 2014)<sup>3</sup>.



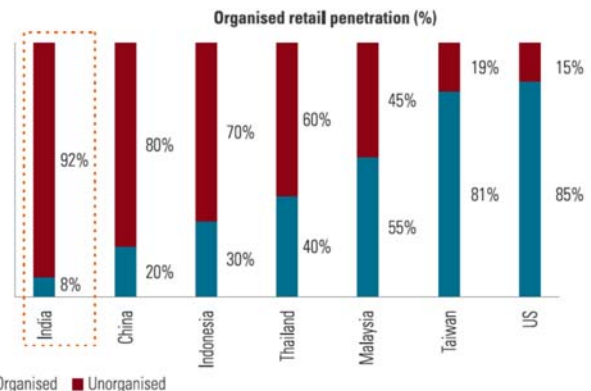
Source: BCG Retail, IBEF report, Pg-14

Jones Lang LaSalle Retail in its Report in 2014<sup>4</sup> says, India has witnessed income growth of about 10%, enabling large sections of its population to move up the consumption, fashion and lifestyle pyramid. This has, naturally, driven demand for organized retail space as opposed to traditional convenience stores. With the increase in the usage of Smartphone's and digitally connected world, customers are more value-conscious while making purchase decisions(Shailesh, Pandey Et al, 2014)<sup>5</sup>. This has witnessed a sudden surge in the number of online retailers in several industries across all corners of India. Shopping in India has witnessed a revolution with the change in the consumer buying behavior and the changes in the retail format. Retail in India have become modern, which is from the fact that there are multi-storied malls, huge shopping centers, and sprawling complexes which offer food, shopping, and entertainment all under the same roof.

### Organized vs unorganized retail industry in India



Source: Ernst & Young Report 2006



Source: KPMG Connect Report 2014

With over 92 per cent of the business coming from the fragmented unorganized sector, such as traditional family run mom and pop stores and corner stores, the Indian retail sector offers immense potential for growth and consolidation in the year 2014. The revenue generated from organized retail was INR0.9 trillion in 2009, INR2.4trillion in 2012, and is expected to grow at an remarkable rate to a projected INR5.5trillion by 2019. It is evident from the images that Organized retail industry share in 2006 was at 3% and has raised to 8% in 2014.

## 2. EVOLUTION OF RETAIL

Barter system is considered as the oldest form of doing business in India. Then it is Haats, Mandis and Melas are the retail formats that have been a part of Indian landscape in the medieval period. For centuries, most merchandise was sold in these retail formats of the local market place that operated weekly by displaying their produce. As the journey was far and too slow, consumers were dependent on local sources of supplies for perishable goods. However for specialty items customers travelled long distances and traders fetched from abroad. International trade thrived from times immemorial. Other than these local markets, it is peddlers who travelled long distances to bring products to locations which were in short supply of goods. "They could be termed as early entrepreneurs who saw the opportunity in serving the needs of the consumers for a profit"<sup>6</sup>. Even today these formats of retail are still prevalent in some corners of India.

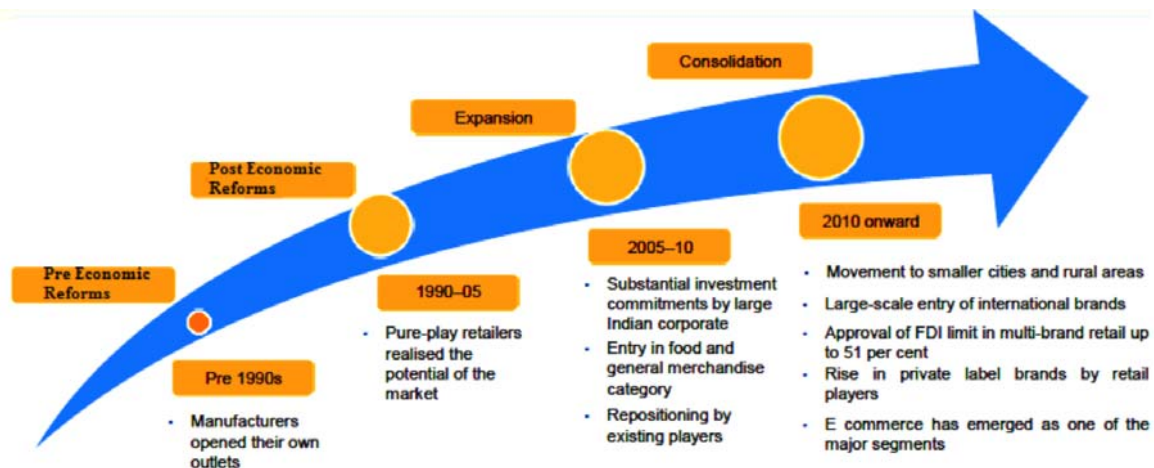
At the time of independence in 1947, India was in poverty with low per capita income. Retail was more focused on fulfilling basic necessities rather than luxury items. Accordingly kirana stores formed the basis for the emergence of retail in India. These stores catered to the fulfillment of human needs of the local communities. For many years, retail in India has evolved to support the unique needs of the diversified population, size and complexity. Kirana stores were also known as multipurpose departmental stores located in the residential areas that stocked multiple utility and were with the purpose of providing convenient buying near door step of the consumer.

The evolution of PDS (Public Distribution System) of Grains in India having its origin in the rationing

system introduced by the British during World War II. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980s resulting in the change of retailing. Bombay Dyeing, S Kumar's and Raymonds are the companies that came with retail chains in textile sector. Later Titan launched retail showrooms in the organized retail sector.

### Stages of Evolution of Retail in India

- Pre Economic reforms stage(Before 1990)
- Post Economic reforms stage(1990-05)
- Retail Expansion Stage (2005 through 2010)
- Consolidation Stage - 2010 onwards



Source: Technopak Advisors Pvt Ltd, BCG, TechSci Research. IBEF Report, Pg-8

**Pre Economic reforms stage** - This stage was basically dominated by manufacturers setting up their own retail outlets. This was initiated by Government establishing Mother Dairy, Super Bazaars, and private brands like Bombay Dyeing, Raymond, S Kumars in apparel business, established their retail outlets across the country. These were followed by Bata in footwear and RPG groups Foodworld in the supermarket segment.

**Post Economic reforms stage** - Modern retail took off in India with the liberalization and globalization of Indian economy in the early 1990's. Due to the initiation of this policy, Indian markets have witnessed increase in consumer purchasing power. Shopping malls emerged in the

urban areas giving a world-class experience to the customers. Eventually hypermarkets and supermarkets emerged. Pure-Play retailers entered the Indian retail market. Pantaloons, Shoppers' Stop and Lifestyle set up their chain of outlets. Subsequently international brands made entry into India included McDonald's, Benetton, Levi Strauss, Adidas, Reebok and Nike, to name a few.

**Retail Expansion Stage** - This is probably the most dynamic period of the Indian retail industry in terms of growth, with the foray of new retailers and development of new formats. With virtually unlimited potential on desk, Reliance, Tata, Aditya Birla and Mahindras entered the bandwagon. Their success brought in global retailers such as Metro

AG, Carrefour, Tesco and Zara made entry in to Indian retail segment. The FDI policy initiated by Govt. in 2005-2006 allowing single-brand foreign retailers to take up to 51% stake in a joint venture with a local firm, saw the entry of several premium brands Gucci, Walmart, Armani etc.

**Towards Consolidation** - Organized retail in India, today holds a fraction (8%) of the market share in India. It has risen from Zero to 8% in a very short period mainly on Volumes and not a value-driven growth. With the approval of FDI limit in multi-brand retail upto 51% has given thrust to the rise of large-scale entry of international brands. This foray has an impact on Indian brands and consolidation of industry started taking place. Kumar Rajagopalan, CEO, Retailers Association of India (RAI) feels that the next couple of years will see more consolidation and a much greater maturity of Omni-channel retail and sustainable retailing practices. "The brick and mortar (B&M) retailers have to do things to achieve scale and amid increasing consumption and competition, there is a scramble among serious players to increase scale through Mergers and Acquisitions"<sup>7</sup>. E-commerce has emerged as one of the major segment targeting the users of internet to move from brick-and-mortar to online space. Last year giants like Reliance, Mahindra and Future Group expanded their own online ventures to take on players like Amazon, Flipkart and Snapdeal.

### 3. REASONS FOR THE EMERGENCE OF DIFFERENT STAGES

The future of indian retail industry is promising with the consistent growth. Government policies are becoming more favorable and emerging technologies are facilitating both sellers and buyers. Modern retail has entered India as seen in sprawling shopping centers, multi-storied malls and huge complexes offer shopping, entertainment and food all under one roof.

The indian population is witnessing a significant change in its demographics has started adapting to newer ways to procure the goods and services of their need with the changing lifestyles. The

reasons for adapting different stages in evolution of retail:

- As per the census 2011 fifty percent of the population in the working group falls under 15 to 54 years<sup>8</sup>. This segment is much influenced by the modern technologies and changing lifestyles. Always ready to adapt to the change in the environment surrounding them. This population has always welcomed the new formats of shopping and adapted these patterns which suits to their fad and wishes.
- There is an increase in disposable incomes in middle class and lower middle class with increase in employment opportunities for young adults in IT and BPO(Business Process Outsourcing) sectors. These customers tend to lookout for luxury and modern outlets to cater to their needs.
- Working-women population in India is increasing and work life balance has become a challenge. This led the women search for newer options to procure products of their choice which is more convenient and suits to their lifestyles and time.
- With both the husband and wife working in a house, time has become the major concern. Customer of this nature consider time as one of the major deciding factor while they so shopping. One-Stop shopping, convenient timings of store, packaged food and small queue at payment counters make to visit the stores of these facilities.
- Problems of travelling in the cities by crossing huge traffic brought in health hazards due to pollution. Also very time consuming which exerts stress.
- Proliferation of Mall culture in Urban areas. Which serves dual purpose of travel and tourism delight. It house many services under one roof like children's pleasure subways, food chains and all household requirements at one place.
- Tech savvy customers carrying robust mobile gadgets are getting accustomed to online and app based business models. Which is evident with the number of online players entering into the business.

#### 4. SELLING TO MARKETING

Selling is a concept which believes that the customer would not buy, or buy less if left alone. Accordingly, salesmanship was an art of persuasion. So, if the customer show buying inertia, the salesman may persuade them to buy. But, if the same concept is practiced more aggressively, the retailer might not only end losing sales, but might also lose his long-term customer, or damage the customers loyalty.

Today, customers remain updated about products and services through various media. When they are interested in buying a specific product, they search out for even the smallest regarding the same. For young and educated customers internet has reduced the time and energy spent searching for alternatives, and they are able to read reviews, and compare products. Hence, retailers should follow a noticeable approach in response to the rising consumer awareness.

Retailing is a convenient, convincing and comfortable method of selling goods and services. Retailing, though as old as business, trade and commerce has now taken new forms and shapes. This is because of new management techniques, marketing techniques and also due to ever changing and dynamic consumer psychology. With more number of educated and literate consumers entering the economy and market, the need for reading the pulse of the consumers has become very essential.

Retail marketing is going through radical restructuring. This is for the reason that of increase in Gross Domestic Product, increase in per capita income, increase in buying power and also the ever shifting tastes and preferences of the community by enhanced learning and awareness available through media and IT. The entry of plastic currency, ATMs, credit cards and debit cards and all other financial instruments, the taste for the branded goods is going up since consumers feel time constraint for searching and negotiating.

Retail marketing is not just buying and selling but also depicting all other personalized consumer services. This not only increased the demand for

an assortment of merchandise in the market but also made retail marketing the second major employment area, the primary being agriculture. Retail industry has contributed to the economic growth of several countries and is unquestionably one of the fastest changing and dynamic industries in the world in the present day.

#### 5. CHANGES IN THE BUYER BEHAVIOUR

Bargaining between sellers and buyers started from inception of exchange of goods and services first in Barter System then in selling concept, when sellers were to push the goods and services on buyers if necessary with false promises. But Marketing concept helped in replacing confrontation with collaboration between sellers and buyers. It was the duty of every marketer to empathize with the needs and requirements of buyers and mould their goods and services accordingly. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in the west followed by other developed countries and emulated by the developing countries. India too passed through these stages by enhancing profitability in business which is the crux of capitalism.

Retailing in India is evolving rapidly, with the increase in consumer spending. Looking at the growth many global players invested in this sector by bringing in the newer business models successfully adapted in developed countries. This exerted pressure on domestic retail firms both in organized and unorganized sector, thus entrusting transformation to meet the global standards. This has an unprecedented impact on buyer behavior in their spending patterns and purchasing styles. The working population in our country is giving more importance to more comfortable living, travel and free time. The buyer philosophies of first save and then spend the remaining has undergone a revolutionary change. Commoners now think first to spend and save the remaining. Consumerism and tourism have increased by leaps and bounds to the extent that borrow through credit cards and spend tomorrows income for today's enjoyment.



It is easy to make the customer purchase for first time by giving offers, but making the customer to repeat purchase is a challenge faced by every marketer. There are many options available to customer before buying any product, which makes consumer behavior irrelevant for a neighborhood store, since neighborhood itself is growing with increased number of customers. And for seller maintaining customer relationship for long term is the key to success of their business. "Loyalty" becomes the focal point in long term-relationship<sup>9</sup>. Almost every company is running a loyalty program to retain their customers. Today's large number of supermarket chain and malls offer Customer Loyalty Card, where reward points are for every purchase enhancing repeated purchases. This is motivating the customer to revisit the store and get the benefit out of it by offering a win-win situation.

Trust is the pillar of any business, without which no business entity whatever its size can exist. Trust could be gained by offering good quality products, brand, value for money services, consistent performance, credibility of the promises made by the store. All these factors will develop trust in the minds of the customers and may lead to positive feelings towards the stores of their choice. This can be seen in the neighborhood convenience store, where the long term relationship of seller and buyer enhances the trustworthiness of both the parties and acts as time saver in judging the quality of the product or selecting the best out of several options. Facilities exist to get a consignment procured to the doorstep with a phone call to the seller. Adding services to products has become imminent because of competition from among the small stores and with the large conglomerates.

### **Convenience**

There are people who are nostalgic about past and live there, there are people who only believe in the present and there are people who are futuristic. Society consists of communities, families and individuals with varying demographics. Marketing habits like other habits don't change so easily. The old people who have plenty of time at their disposal

use buying to while away time by examining the range of brands and negotiating. People who are busy running behind the time take the help of technology and word of mouth (from colleagues, relatives & friends) for making buying decisions. This is how the people with their buying habits and time constraints resort to various types of retail outlets. On line marketing doesn't mean traditional markets will disappear. They all exist side by side and customers select any one of them according to their convenience.

### **Two-way Comfort:**

Two-way comfort for the customers and the retailers become essential when you have multiple requirements of customers provided at one place. It is the wide range of products offered by retailers and the multiple requirements (whose number is growing as the purchasing power grows) of the customers which facilitate a multibrand or huge variety of products to be stored in one place. It is not only food and grocery but also other day to day needs like, clothing, footwear, electronics and household gadgets put in one place. Then the large stores also offer food chains for entertaining the members of the family at the stores. As any day to day requirements like hair salons, beauty parlors, nails, tattooing and even shoe polishing is offered as the large stores which have a large parking area, so that without worry or hurry the customers can buy all the comforts at one place and spend long hours of time. Getting so many requirements met in one place is such a comfort what with the traffic snarls and pollution of moving on the congested roads. Larger the city larger the difficulties commuters face on the road.

## **6. NEW AVATARS OF SELLING**

- **Advertising:** Advertising played vital role in selling phase and it continued to dominate marketing phase with shift of focus to what consumers want rather than what the sellers can offer. Producers, dealers and retailers are utilizing all means of media like print media, TV, SMS and social media to advertise their products.

- **Offering Discounts:** Most retailers have advanced off-season sales from 15 days to a month with discounts of 20-70 per cent on certain products. Higher discounts and other value-added services for members. These are advertised in news papers with several products and their original price and discounted price to arouse immediate purchase interest to procure and get the price and quantity benefits by customers
- **Offering value-added services:** Companies offer innovative value-added services, such as customer loyalty programmes and happy hours on shopping deals. Offers around various categories of customers like, youth, children, ladies, senior citizens and . Then there are offers like buy one and take one free apart from offering luxury cars and other valuable gifts by lottery of customers in a time frame.
- **Partnership :** Marketers are offering multiple household requirements at one place while partnering with manufacturers, service providers and financial institutions to give price benefit to customers.
- **Bulk purchase:** Shoppers purchase in bulk quantities directly from producers for less prices and transfer part of the profit margins or give additional quantities to targeted customer segments.
- **Strong supply chain:** Critical components of supply chain planning help retailers to maintain

profit margins. Retailers develop innovative solutions for managing the supply chain problems and making products available for sale to customers at their convenience of time and distance.

## 7. ROLE OF FOREIGN DIRECT INVESTMENT(FDI) IN RETAIL

The Government of India, through its reforms in FDI for retailing seems to be repositioning the Indian retail sector on the global map of investments. India categorizes retail trading into single brand retail trading (SBRT) and multi-brand retail trading (MBRT). Currently, FDI under SBRT is permitted to the extent of 100% and FDI under MBRT is permitted to the extent of 51% with select conditions and Government approval. While the FDI policy for SBRT has received favorable response, the FDI policy for MBRT has been slow to gain the traction among international retailers. Given this, the Govt. of India seems to be working toward relaxing some aspects of the FDI policy, which could propel more international retailers to invest in the country<sup>10</sup>. Experts in retail sector in India believe that allowing FDI in online retail, investment in back-end supply chain and limiting the role of the state could be some of the changes which may shift momentum to FDI in retailing by leveraging benefits to consumers.

Foreign Direct Investment in Indian retail Landscape

Type	FDI % allowed	Companies
Multi-Brand	51	Tesco-Tata
Single-Brand	100	H&M, IKEA
Wholesale, Cash-&-Carry	100	Metro, Walmart
B2C	100	Amazon, Flipkart, Snapdeal, Metro
B2B	100	Walmart, Alibaba

Source: Business-Standeard.com/article

## 8. FOOD AND GROCERY RETAIL MARKET

The three top categories of products for which global retail sales are the higher are grocery, apparel and furniture. Grocery retailing has the highest sales because of its crucial position in

satisfying one of the basic needs of any human being i.e food. As per the findings of the 2016 edition of the India Food Report Food Retail sector comprising Food & Grocery and Food Service, is valued at INR 25,12,962 crore

(2014) and holds a 65 per cent share in the country's total retail market pie. Out of this, Food and Grocery (F&G) retail is worth INR 23,03,496 crore and Foodservice (FS) market is valued at INR 2,09,466 crore. The average rate of growth during the past four years in F&G has been 15 per cent p.a. and 22 per cent p.a. in FS. The respective growth rates are estimated to take these retail markets to INR 54,20,789 crore and INR 6,90,672 crore by 2020<sup>11</sup>. A large part of this growth will be driven by inflationary price increase, and the balance by demand growth led by increasing population, increasing incomes and thereby higher spends on foods and lastly urbanization, which is changing food habits. India's Food and Grocery retail market offers one of the largest opportunity areas for business and dominates the industry in next five years.

Lakshmi Narayana k et al, 2019<sup>12</sup> in their study identified factors such as location convenience, goodwill, credit facility, bargaining, loose items, convenient timings, and home delivery are attracting customers towards unorganized retail. In addition "customized services" and "easy goods return/exchange facilities" drive a customer towards *kirana* stores, where as "product choice", "efficient store- management" and "value-enhancing services" attract customers towards modern retailers.

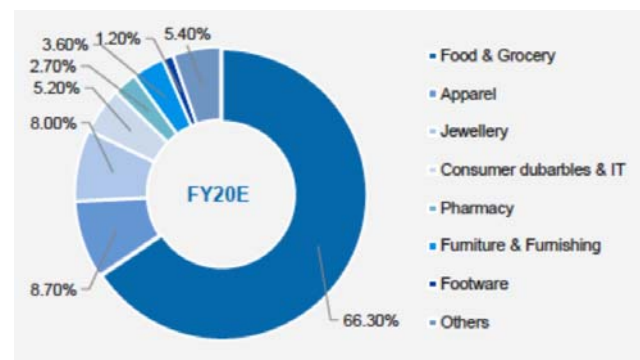
Local *kirana* stores and street hawkers will however continue to dominate the food and grocery market with a 90 per cent plus share, even in 2025. Although, consumption is on the rise and most formats of retail are proliferating in important developing markets, yet the penetration of large format modern retailing in India has not even crossed the 10 per cent mark.

Looking into the future, the Indian market will be unique in its own way and will be a medley of extremes of the unorganized, organized and online players, who will co-exist in the Indian retail ecosystem and will expand the market for each other, as all have unique strengths and the sector is large enough to accommodate all participants. It is expected that unique partnership models will

emerge as the retail market matures and this partnership will further push the sector growth.

### Food & grocery revenues share in India

By 2020, food & grocery segment is expected to account for 66 per cent of the total revenues in the retail sector, followed by apparel segment. Demand for Western outfits and readymade garments has been growing at 40–45 per cent annually; apparel penetration was expected to increase to 30-35 per cent by 2015<sup>13</sup>



Source: Technopak, India Retail Market 2013, Deloitte, Pg-16

The shopper is moving seamlessly between the physical and digital world, and the mobile phone is fast becoming the central processing unit of consumers. Consumers are buying more and more food online – grocery buying on the internet has grown by 14 per cent over the past two years. Over all, Food & Grocery e-tailing is the fastest growing category in India. Digital technology poses both an opportunity and a threat to the organized retail sector. Companies that use the Internet, Social Media and CRM can improve their engagement with customers and move them up the ladder of engagement (Smith and Zook, 2011)<sup>14</sup>.

Cash buying Vs Digitization which erupted as an issue in the wake of demonetization in Nov 2016 with the questions what will happen to the illiterate masses both rural and urban who are prone to use cash for deals came to the fore. The answer is developing the digital infrastructure in all parts of the country apart from improving shields to use technology to the illiterate people.

In India, the online market stands at about at 1 per cent of the total retailing market(CRISIL Research

Report 2014)<sup>15</sup> but considering that the country's tech-savvy, young generation has made India the third-largest country in terms of internet users, the growth in electronic commerce may happen more rapidly than expected. The e-tailing sector is booming on the growing internet user base, which was projected to cross around 400 million users by 2020. Consumers purchasing decisions thus are influenced by information that is available to them. When making buying decisions they consider brands that they are aware of, talk to friends and family and consider product experiences they have had.

## 9. FUTURE SCENARIOS OF RETAILING

India is the fifth largest preferred retail destination globally. The sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. With increasing investment in infrastructure, retailers would be able to increase their access to high-growth potential rural markets.

The income of an average Indian is increasing thus there is an improvement in purchasing power. In the backdrop the retail infrastructure is improving with latest advancements that is enhancing the purchasing facilities to the convenience of the customers. Policies governed by the government institutions are liberal and making way to the increased investments in the retail sector from domestic and international firms.

On the other side, consumer is informed about the goods and services which they wanted to buy. This has happened with the invasion of internet into every household and into the hands of consumer with advanced mobile technologies. By understanding the above factors one can predict a promising future for the retail sector in India.

## 10. CONCLUSION

Retail in India has gone through many variations in its style of business and being attributed by the consumers in various segments since its evolutionary stages. Like other growing economies India is experiencing major transformations in retail sector. The market is maturing as most

retailers are now focusing on profitable growth. Established retailers are tapping into growing retail market by introducing innovative technologies, different store formats and payment mechanisms to gain market leadership. Whereas the number of traditional retail outlets sustaining their business with maximum share of the retail business in India. The advancement in mobile technologies and easy availability of internet have given impetus to online businesses. The news that the owner of "Amazon.com" founder Jeff Bezos is the Forbes richest person on the world, confirming to the growing power of the e-retailers<sup>16</sup>. Many retailers all over the world are converging from brick and mortar businesses to click and mortar businesses.

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# MULTI-CAP MUTUAL FUNDS : A STUDY

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## ABSTRACT

*Multi Cap Mutual Fund comprises of large cap, midcap and small cap stocks. They are relatively less risky compared to a pure mid cap or a small cap fund and are suitable for not-so-aggressive investor. To identify the best multi cap mutual fund, out of 63 Asset Management Companies (AMCs) 5 AMCs have been identified, which are offering all kind of stocks. Risk – adjusted return methods are applied to find out the best fund out of select funds. It concludes that all other schemes of multi cap funds showed positive co-relation between Financial and investment dimensions, and **ICICI Prudential Multi Cap Fund** outperformed other counter parts, it is identifies as the best fund.*

**Key words :** *Mutual Funds, multi cap funds, AMC, CNX NIFTY, Systematic Risk. Asset Management Companies.*

## INTRODUCTION

Multi cap funds are those funds which are invested in both large –cap stocks and Mid-cap stocks. Multi-Cap funds can change its nature according to the situation. It can enjoy the stability that exposure to large-cap stocks provides and at the same time take explore to mid-cap stocks. Multi-cap funds provide sound risk-adjusted returns over the long term. Multi-cap funds can shift even portfolios across market caps, they can hold large-cap or mid-cap stocks, or mix of both. By investing

in Multi-cap fund, the retail investor can leverage a fund manager's expertise.

The present paper deals with data analysis and interpretation of Multi-cap funds adopting the following frame work.

## RESEARCH METHODOLOGY:

As per AMFI there are 63 Asset Management Companies (AMCs) are operated in

India during March 2019. They are as follows

**Table 1. Number of Asset Management Companies**

S.No	AMCs Name	S.No	AMCs Name
1	AIG Global Investment Mutual Fund	33	JP Morgan Mutual Fund
2	Alliance Capital MF	34	<b>Kotak Mahindra MF</b>
3	Anagram Wellington MF	35	L&T Mutual Fund
4	Apple Mutual Fund	36	Lotus Mutual Fund
5	AXIS Mutual Fund	37	LIC Mutual Find
6	Benchmark Mutual Fund	38	Mirae Asset Mutual Fund
7	BOI AXA Mutual Fund	39	Mahindra MF
8	<b>Birla Sun Life Mutual Fund</b>	40	Morgan Stanley MF
9	BNP Paribus MF	41	Peerless Mutual Fund
10	Baroda Pioneer MF	42	Motilal Oswal MF
11	CRB Mutual Fund	43	Pioneer ITI Mutual Fund
12	Deutsche Mutual Fund	44	Pinbridge Mutual Fund
13	<b>DSP Blackrock MF</b>	45	Principal Mutual Fund
14	Dundee Mutual Fund	46	Quantum Mutual Fund



15	Edelweiss Mutual Fund
16	Escorts Mutual Fund
17	Fidelity Mutual Fund
18	First India Mutual Fund
19	Fortis Mutual Funds
20	Franklin Templeton MF
21	Goldman Sachs Mutual Fund
22	HB Mutual Fund
23	HDFC Mutual Fund
24	HSBC Mutual Fund
25	<b>ICICI Prudential MF</b>
26	IDFC Mutual Fund
27	IL&FS Mutual Fund
28	ING Mutual Fund
29	ITC Classic Thread. MF
30	Invesco MF
31	Jardine Fleming MF
32	JM Mutual Fund

47	Reliance Capital MF
48	Sahara Mutual Fund
49	SBI Mutual Fund
50	Shriram Mutual Fund
51	SREI Mutual Fund
52	Sun F&C Mutual Fund
53	Sundaram MF
54	<b>Tata Mutual Fund</b>
55	Taurus Mutual Fund
56	UTI Mutual Fund
57	Union KBC Mutual Fund
58	PPFAS
59	DHFL Pramerica MF
60	IIFCL
61	IDBI
62	INDIABULLS
63	IIFL

Source: AMFI

Above shown AMC's are public and private sector asset management companies. Of the total 63 Asset Management Companies (AMCs), researcher has purposively selected Five AMCs which are operating all types of cap schemes. Furthermore, researcher has selected each type of cap schemes floated by each chosen AMCs.

### Sampling:

Based on the Value research journal and AMFI, there are 63 Asset Management Companies (AMCs) that are in existence during the study period, Out of this, in the first stage, Five (05) mutual fund Asset Management Companies are

purposively selected as these Asset Management Companies are found operating Growth funds categorized into Large Cap, Large & Mid Cap, Multi Cap and Mid & Small Cap funds. At the second stage, these five Asset Management Companies are found operating all types of cap funds. In all, there are 49 Cap schemes being floated by these five AMCs. Out of 49 schemes, researcher has purposively selected one (01) scheme from each type of Cap fund from each AMC depending upon the existence of given scheme both at the beginning of the study period and at the end of the study period as well as on the basis of availability of required secondary data.

**TABLE 2. SELECT MULTI CAP MUTUAL FUNDS**

Biria Sun Life Asset Management Company Limited	3	1
DSP BlackRock Investment Managers Private Limited	2	1
ICICI Prudential Mutual Fund	1	1
Kotak Mahindra Asset Management Company Limited	1	1
Tata Asset Management Limited	3	1
TOTAL	10	5
Source : Primary data		

### Period of The Study:

The present study aims to carry out the evaluation of chosen schemes from 2008-09 to 2016-2019. Hence, the study covers a period of 9 financial years. The rationale behind choosing nine years duration as a period of study is to cover bearish phase, bullish phase and consolidation phase as exhibited by the values of respective benchmark indices used in the study.

### II. Performance Evaluation Methods:

#### (1) Return related analysis and its interpretation:

For the purpose of carrying out return related analysis and interpretations, average holding period return (HPR i.e., 6.69%) for the study period had been compared with the average return on the chosen bench mark index. If the average return is found to be greater than respective average return on the bench mark index, the said fund is to be considered as experiencing superior return than the underlying index and vice-versa.

#### (2) Risk related analysis and its interpretation:

Risk refers to variability in returns, the variation in return signifies risk associated with a portfolio. Risk gets measured in terms of standard deviation ( $\sigma$ ), beta ( $\hat{\alpha}$ ) and coefficient of determination ( $R^2$ ). Evaluation of riskiness of select schemes these, three variables are measured and suitable

interpretation is drawn thereupon. The details are furnished below.

- (i) Total Risk analysis and interpretation ( $\sigma$ )
- (ii) Systematic Risk analysis and interpretation ( $\hat{\alpha}$ )
- (iii) Analysis and interpretation of co-efficient of determination ( $R^2$ ).

#### (3) Risk – adjusted return analysis and its interpretation:

Risk and Return are the two variables required for performance evaluation of portfolio, Portfolio evaluation is said to be complete, if the comprehensive evaluation is based on both the return and risk. Thus, risk adjusted return analysis is required for evaluating portfolio performance.

In the lexicon of mutual fund performance evaluation, there are several risk-adjusted performance models evolved and implemented from time to time. The following five (5) models are used for evaluating performance of mutual funds.

- (i) Treynor's Index
- (ii) Sharpe's Index
- (iii) Jensen's Differential Index
- (iv) Eugene Fama's Decomposition Net Selectivity Index
- (v) Modigliani and Modiglian's risk adjusted performance measure ( $M^2$ )

**Table 3: Returns for select scheme of the Multi Cap Funds and Bench Mark Values for the study period 2008-09 to 2016-17.**

(Values in Percentages)

YEAR	CNX NIFTY	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
2008-09	-38.97	-40.22	-36.4	-40.83	-30.9	-45.38
2009-10	87.58	89.55	83.92	99.03	91.84	104.99
2010-11	1.92	6.25	12.04	1.93	11.47	-1.02
2011-12	-9.26	-5.31	-9.07	-9.026	-4.53	-1.47
2012-13	7.22	5.84	6.29	6.82	-0.04	7.39

2013-14	13.69	19.5	23.54	25.59	16.87	20
2014-15	34.73	49.41	42.36	51.9	50.31	48.62
2015-16	-8.05	-6.57	-3.65	-5.57	-9.86	-6.46
2016-17	24.2	30.95	31.81	35.04	26.94	19.8
AVERAGE	12.56	16.6	16.76	18.29	16.9	16.28
DEVIATION		4.04	4.2	5.73	4.34	3.71
OVER /UNDER		OVER	OVER	OVER	OVER	OVER
RANK		4	3	1	2	5

*Source: Compiled from NAV records of the respective AMCs.*

Above table reveals information of the holding period returns of select schemes of multi cap funds as well as bench mark index. Average returns for the holding period are calculated on the basis of Net Asset Value (NAV) for the study period.

Among the select schemes of multi cap funds, Birla Sun Life equity fund growth ranked 1<sup>st</sup>, has earned an average return of 18.29 percent and has earned excess returns over the counter part schemes, and the bench mark index, CNX Nifty . DSP Black

Rock Equity fund growth ranked 2<sup>nd</sup>, ICICI Prudential multi cap fund growth ranked 3<sup>rd</sup>, Kotak opportunities fund growth ranked 4<sup>th</sup> and the last rank is assigned to Tata Equity opportunities fund regular growth. From the above analysis it is concluded that all the Multi Cap. Funds of select AMCs have succeeded in imitating the performance of underlying index and registered excess returns over CNX Nifty Index.

#### **Risk related analysis and its interpretation**

**Table 4: Standard deviation of select schemes of multi cap funds and bench mark values**

PARTICULARS	CNX Nifty	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Average	35.27	37.22	34.42	40.63	36.42	41.76
Deviation		1.95	-0.85	5.36	1.15	6.49
Riskiness		Average Risk	Less Risk	High Risk	Average Risk	High Risk
Rank		3	1	4	2	5

*Source: Compiled from NAV records of the respective AMCs.*

Above table provides the information about the resultant total risk, i.e., standard deviation of each select scheme of multi cap funds and bench mark index.

Among the select schemes of multi cap funds, ICICI Prudential Multi Cap Fund Growth has less risk (34.42 Percent) than the bench mark index, CNX Nifty and its counterpart schemes ranked 1<sup>st</sup>. DSP Black Rock Equity fund growth and kotak

opportunities fund growth has an average risk of 36.42 percent and 37.22 percent, which were ranked 2<sup>nd</sup> and 3<sup>rd</sup> respectively. Further, riskiness

of Birla Sun life fund equity growth and Tata opportunities fund growth are high are ranked 4<sup>th</sup> and 5<sup>th</sup> respectively.

**Table 5: Return versus standard deviation of select schemes of Multi cap funds**

Name of the scheme	AR <sub>P</sub>	SR <sub>P</sub>	Deviation		Situation
			AR <sub>P</sub>	SR <sub>P</sub>	
KOTAK OPPORTUNITIES FUND GROWTH	16.60	37.22	4.04	1.95	AR <sub>P</sub> >AR <sub>m</sub> : SD <sub>P</sub> > SD <sub>m</sub>
ICICI PRUDENTIAL MULTI CAP FUND GROWTH	16.76	34.42	4.20	-0.85	AR <sub>P</sub> > AR <sub>m</sub> : SD <sub>P</sub> <SD <sub>m</sub>
BIRLA SUN LIFE EQUITY FUND GROWTH	18.29	40.63	5.73	5.63	AR <sub>P</sub> > AR <sub>m</sub> : SD <sub>P</sub> > SD <sub>m</sub>
DSP BLACKROCK EQUITY FUND GROWTH	16.90	36.42	4.34	1.15	AR <sub>P</sub> > AR <sub>m</sub> : SD <sub>P</sub> >SD <sub>m</sub>
TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH	16.28	41.76	3.71	6.49	AR <sub>P</sub> > AR <sub>m</sub> : SD <sub>P</sub> >SD <sub>m</sub>
CNX NIFTY	12.56	35.27			

*Source: Compiled from NAV records of the respective AMCs.*

The table no. 5 provides the information about the average returns of the portfolios and average standard deviation of select multi cap funds. Above table also provides information about the deviation between the average return on the portfolio and average returns on the market index, as well as the standard deviation of the portfolio as compared to the standard deviations of the market. The comparison between Actual Return on portfolio

(AR<sub>P</sub>) and Actual Return on market (AR<sub>m</sub>) results in relative performance of sample schemes. All the select schemes of multi cap funds earned excess return over the bench mark index. ICICI Equity opportunities fund growth provided higher returns with lower risk as compared to market index. All other schemes of the select multi cap funds earned excess returns than the market index with higher risk.

**Table No. 6: Systematic Risk (Beta) for select schemes of multi cap fund.**

PARTICULARS	CNX Nifty	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Beta	1.00	1.05	0.97	1.14	1.02	1.17
Deviation		0.05	-0.03	0.14	0.02	0.17
Over / Under		Over	Under	Over	Over	Over
Rank		3	5	2	4	1

*Source: Compiled from NAV records of respective AMCs.*



Table No. 6 provides information about systematic risk of multi cap funds for the study period. A fund having higher beta value may do well in a general upward-trend, whereas may not do so during the down-trend. A fund with lower beta may not exhibit attractive performance but save investors from extreme losses during the down-ward trend.

ICICI prudential multi cap fund growth, whose beta value is less than 1.00 i.e., 0.97 shows less than Proportionate responsiveness. All other select schemes of multi cap fund's beta ( $\hat{\alpha}$ ) value is greater than 1.00, implying more than proportionate responsiveness to the changes in the market and are considered as aggressive portfolios.

**Table 7: Coefficient of Determination ( $R^2$ ) for select schemes of multi cap funds.**

PARTICULARS	CNX Nifty 500	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Coefficient of Determination	1.00	0.98	0.98	0.99	0.97	0.98
Deviation		-0.02	-0.02	-0.01	-0.03	-0.02
Rank		2.5	2.5	1	5	4

*Source: Compiled from NAV records of respective AMCs.*

Table 7 shows the information about average values of coefficient of determination ( $R^2$ ) of each select schemes of multi cap funds.  $R^2$  value ranging between 0.85 to 1.00 implies better diversified portfolio and indicates the fund's performance pattern have been in line with the index. From the above table, it can be inferred that all the schemes of select multi cap funds coefficient of determination ( $R^2$ ) is within the standard value of 0.85 to 1.00. Birla sun life equity fund growth ranked 1<sup>st</sup> among the select schemes, followed by

Kotak Opportunities Fund Growth and ICICI Prudential multi cap fund growth ranked equally (2.5<sup>th</sup> rank) and Tata Equity opportunities fund growth ranked 4<sup>th</sup> and the last rank is assigned to DSP Black Rock Equity Fund Growth.

Hence, all the funds of select schemes of multi cap funds are better diversified portfolios and the performance patterns have been in line with the market index.

### (3) Risk – adjusted return analysis and its interpretation

**Table 8: Treynor's values of select schemes of multi cap funds and bench mark values**

PARTICULARS	CNX Nifty	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Average	5.87	9.47	10.42	10.15	10.05	8.17
Deviation		3.60	4.55	4.28	4.18	2.30
Over/Under		Over	Over	Over	Over	Over
Rank		4	1	2	3	5

*Source: Compiled from NAV records of respective AMCs.*

Table 8 furnishes the average value of Treynor's index for the select schemes of multi cap funds and the underlying bench mark index for the study period 2008-09 to 2016-17. It is astonishing to note from the above table that all the select schemes of multi-cap fund over performed as compared to bench mark index. ICICI Prudential multi cap fund growth out performed its counterpart schemes, ranked number one (1), followed by Birla Sun Life Equity

Fund growth, ranked 2<sup>nd</sup>, DSP Black Rock Equity Fund ranked 3<sup>rd</sup>, Kotak opportunities Fund growth ranked 4<sup>th</sup>, Tata Equity opportunities fund regular

growth ranked last among the select schemes of multi cap funds.

All schemes have succeeded in generating excess returns in commensurate with their systematic risk ( $\hat{\alpha}$ ) as compared to bench mark index. Tata Equity opportunities fund regular growth has lesser deviation value, it implies that Tata Equity opportunities fund growth has a better composition of two profiles than that of other funds. It can be concluded that the fund managers have succeeded in incorporating appropriate changes in the composition of their portfolios.

**Table 9 : Sharpe's value of select schemes of multi cap funds and Bench Mark Values.**

PARTICULARS	CNX Nifty	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNI TIES FUND REGULAR GROWTH
Sharpe's return	0.17	0.27	0.29	0.29	0.28	0.23
Deviation		0.10	0.12	0.12	0.11	0.06
Over/Under		Over	Over	Over	Over	Over
Rank		4	1.5	1.5	3	5

*Source: Compelled from NAV records of respective AMCs.*

Table 9 furnishes the average values of Sharpe's Index, for both select schemes of multi cap funds and the underlying bench mark index, CNX Nifty. All select schemes of multi cap funds over performed as compared to average performance of bench mark index. The Sharpe Index measures the risk premium of the portfolio relative to the total amount of risk in the portfolio. This Index measures the slope of the risk-return line, summarizing the risk and return of a portfolio in a single measure that categories the performance on risk-adjusted basis. Among the select schemes of multi cap funds, ICICI Prudential Multi Cap Fund growth and Birla Sun Life Equity Fund growth performed equally good with an return of 0.29, with a deviation of 0.12 percent over the bench

mark index CNX Nifty ranked 1.5. DSP Black Rock Equity fund growth

ranked 3<sup>rd</sup> and Kotak opportunities growth ranked 4<sup>th</sup> with a deviation of 0.11 percent and 0.10 percent respectively. Tata Equity opportunities fund regular growth ranked last among the select schemes of multi cap funds.

Fund managers of all select schemes of multi-cap funds have succeeded in incorporating appropriate changes in the composition of their portfolio to changing conditions of the over all market. Hence, all the schemes have succeeded in generating excess return in commensurate with the total risk ( $\sigma$ ) as compared to bench mark index.

**Table 10: Jensen's Alpha ( $\alpha$ ) for select schemes of multi cap funds.**

PARTICULARS	CNX NIFTY	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Alpha	0	-0.47	0.80	-2.01	1.18	-1.21
Over/Under		Under	Over	Under	Over	Under
Rank		3	2	5	1	4

*Source: Compiled from NAV records of respective AMCs.*

Table 10 furnishes the information about values of Alpha ( $\alpha$ ) for select schemes of multi cap funds. The Jensen's ratio measures the difference between the actual return of a portfolio and expected return of the portfolio. Thus, the differential return gives an indication, how well the portfolio has performed. If  $\alpha$  is positive, it shows that the portfolio has performed better and it has outperformed the market. If the  $\alpha$  is negative, it means that the portfolio has underperformed as compared to the market. If  $\alpha$  is zero, it indicates that the portfolio has neither over performed nor under performed.

It is noticed from the above table that Birla Sun Life Equity fund growth, Tata Equity opportunities fund regular growth and Kotak opportunities fund growth negative indicates lesser returns implying inferior management skills and predictability of the fund managers is dissatisfactory in selecting superior stocks. DSP Black Rock Equity fund growth earned positive differential return of 1.18, ranked number one, followed by ICICI prudential multi cap fund growth with differential return of 0.80, indicates superior skills of the fund managers in predication of market conditions and selecting superior stocks.

**Table 11 : Fama's value of Net selectivity for select schemes of Multi cap funds.**

PARTICULARS	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Average	-0.55	0.24	-1.76	-0.33	-1.76
Over/Under	Under	Over	Under	Under	Under
Rank	3	1	4.5	2	4.5

*Source: Compiled from NAV records of respective AMCs.*

Table No. 11 indicates the values of Fama's Net selectivity of select schemes of multi cap funds. Fama's model attempts to measure the performance in terms of the components of risk. As Fama's measure based on total risk, it focuses on the vertical difference between the portfolio return and the capital market line (CML). The

value of Net selectivity indicates superior/inferior stock selection ability of respective fund managers of AMCs. A positive value implies superior stock selection ability and negative value implies inferior stock selection ability of fund managers.

From the above table it is noticed that only ICICI Prudential multi cap fund growth Net selectivity

is positive (0.24), indicates selection of superior stocks as their portfolio. Whereas the counterpart select schemes of multi cap funds with negative selectivity, indicates inferior stock selection by

fund managers of respective AMCs, need to analyze the market, develop and implement strategies to overcome their inferior stock selection skills.

**Table 12 : Modigilani and Miller risk Adjusted ( $M^2$ ) returns for select schemes of multi cap funds.**

PARTICULARS	CNX Nifty	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH
Avg. Value	0.18	4.05	4.46	5.26	4.41	3.45
Deviation		3.87	4.28	5.08	4.23	3.27
Over/Under		Over	Over	Over	Over	Over
Rank		4	2	1	3	5

*Source: Compiled from NAV records of respective AMCs.*

Table No.12 indicates  $M^2$  risk-adjusted performance of select schemes of multi-cap funds for the study period. The value of  $M^2$  measures the performance of the portfolio on risk-adjusted basis. A positive value of  $M^2$  indicates better performance on total risk adjusted basis, negative  $M^2$  indicates poor performance of the portfolio as compared to bench mark value, and if  $M^2 = 0$ , implies neutral performance of such portfolio as compared to the underlying bench mark index.

From the above table it can be noticed that all select schemes of multi cap funds showed positive values of  $M^2$ . Among the select schemes, Birla Sun Life Equity fund growth  $M^2$  value is 5.26, highest among the select schemes of multi-cap funds. It can be inferred that this fund is performing well corresponding to the bench mark index.

Hence, all fund managers stock selection was satisfactory in return maximization strategies at the given level of total risk.

**Table 13: Overall Ranking of select schemes of Multi cap funds.**

PARAMETERS	KOTAK OPPORTUNITIES FUND GROWTH	ICICI PRUDENTIAL MULTI CAP FUND GROWTH	BIRLA SUN LIFE EQUITY FUND GROWTH	DSP BLACKROCK EQUITY FUND GROWTH	TATA EQUITY OPPORTUNITIES FUND REGULAR GROWTH	TOTAL
Return	4	3	1	2	5	15
Risk( $\sigma$ )	3	1	4	2	5	15
Treynor's Index	4	1	2	3	5	15
<sup>o</sup> Sharpe's Index	4	1.5	1.5	3	5	15



Jenesen's	3	2	5	1	4	15
Fama's Decomposition returns	3	1	4.5	2	4.5	15
M-Squared (M <sup>2</sup> )	4	2	1	3	5	15
Total	25	11.5	19	16	33.5	105
Rank	4	1	3	2	5	

*Source: Compiled from respective tables.*

Table 13 indicates the overall ranking of all chosen Multi cap funds of the study period from 2008-09 to 2016-17. From the above table, it is evident that ICICI Prudential multi cap fund growth has placed at first position dominating the market due to high returns, low risk, timely diversification of portfolios and efficient management skills of fund managers in selecting superior stocks. DSP Black Rock Equity Fund Growth ranked 2<sup>nd</sup>, Birla Sun Life Equity Fund Growth ranked 3<sup>rd</sup>, Kotak Opportunities Fund Growth ranked 4<sup>th</sup>, Tata Equity opportunities fund, regular growth ranked 5<sup>th</sup>.

Tata Equity opportunities fund, regular growth fund managers need to develop strategies and implement them to overcome their inferior stock selection.

**Table: 14: Hypothesis Testing of Multi Cap. Funds**

**A) Descriptive Statistics of selected schemes of Multi Cap. Funds**

	Mean	Std. Deviation	N
R1	6.00	7.141	9
R2	2.78	3.528	9
R3	4.56	5.593	9
R4	3.78	4.631	9
R5	8.00	9.760	9

**(b) Results of Multiple Co-relation of select schemes of Multi. Cap Funds**

	C1	C2	C3	C4	C5
R1	1.00				
R2	0.38	1.00			
R3	-0.96	0.44	1.00		
R4	0.76	0.23	0.75	1.00	
R5	0.67	0.02	0.77	0.80	1.00
R6	0.56	0.48	0.62	0.64	0.74
R7	0.84	0.78	0.68	0.72	0.63

From the above table it can be inferred that there is a negative co-relation between Financial and Investment dimension in Kotak opportunities Fund Growth. Positive Co-relation is noticed between Financial and Investment dimension in case of ICICI Prudential Multi Cap. Fund Growth, Birla Sun Life Equity Fund Growth and DSP Black Rock Fund Growth, Tata Equity opportunities Fund Regular Growth.

It is suggested to the Fund Managers of Kotak opportunities Fund Growth to select superior stocks and diversify the funds to ensure excess returns. It can be concluded that, the Fund Manager of ICICI Prudential Multi Cap Fund Growth, Birla Sun Life Equity Fund Growth, DSP Black Rock Fund Growth and Tata opportunities Fund Regular Growth initiated super stock selection skills and diversified the portfolios in earning excess returns.

From the above analysis and interpretation it can be summed up that multi.cap funds provide sound

risk-adjusted returns over the long term. In fact, the retail investors can leverage a funds managers expertise.

### **Conclusion :**

Multi cap funds have succeeded in imitating the performance of under lying index and registered excess returns over CNX Nifty Index. High risk is noticed in the schemes of Tata Equity Opportunities Fund Regular Growth and Birla Sun life Equity Fund growth. ICICI prudential multi cap fund growth, showed less than proportionate responsiveness. All other schemes of multi cap funds showed more than proportionate responsiveness to the changes in the market and are considered as aggressive portfolios and better diversified portfolios and the performance patterns

have been line with the market index. Hence, all the schemes have succeeded in generating excess returns in commensurate with the total risk ( $\sigma$ ) as compared to bench mark index.

Negative co-relation between Financial and Investment dimension is noticed in case of Kotak Opportunities Fund Growth. However, all other schemes of multi cap funds showed positive co-relation between Financial and investment dimensions. **ICICI Prudential Multi Cap Fund** outperformed other then counter parts and ranked number one follows by DSP BLACKROCK equity fund growth, Birla sum life equity fund growth, kotak opportunities fund growth and TATA Equity opportunities fund regular growth.

# CRITICAL ANALYSIS ON PROJECT MANAGEMENT AND ITS TECHNIQUES IN MAKING A PROJECT SUCCESSFUL – AN ANALYTICAL STUDY

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## ABSTRACT

*The role of different project management techniques to implement projects successfully has been widely established in areas such as the planning and control of time, cost and quality. Every project is unique in terms of the problems that arise, the priorities and resources assigned it, the environment in which it operates, and the project manager's attitude and style used to guide and control project activities. Therefore, the organizational structure for the project must be designed to fit within that project's operating constraints. In spite of this the distinction between the project and project management is less than precise. This paper aims to identify the overlap between the definition of the project and project management and to discuss how the confusion between the two may affect their relationship. It identifies the different individuals involved on the project and project management, together with their objectives, expectations and influences. It demonstrates how a better appreciation of the distinction between the two will bring a higher possibility of project success.*

**Key Words:** *Project management, Projects, operational objectives and goals, strategic goals.*

## 1. INTRODUCTION

It has been documented that project management is an efficient tool to handle novel or complex activities. Project Management is more efficient than traditional methods of management, such as the practice of functional divisions in a formal hierarchical organization, for handling such situations. The process of bringing new projects on stream and into the market imposes demands on established organizations and necessitates different management techniques from those required to maintain day-to-day operations. In such circumstances, where companies have a finite, unique and unfamiliar undertaking, the techniques of project management can be successfully implemented. These undertakings would call for more and faster decision making techniques than possible in a normal operation and making the right choices will be critical to company success.

The use of project management has become associated with such novel complex problems,

which are inevitably called a project. Consequently the success of project management has often been associated with the final outcome of the project. Over time it has been shown that project management and project success are not necessarily directly related. The objectives of both project management and the project are different and the control of time, cost and progress, which are often the project management objectives, should not be confused with measuring project success. Also, experience has shown that it is possible to achieve a successful project even when management has failed and vice versa. There are many examples of projects which were relatively successful despite not being completed on time, or being over budget, e.g. the Thames Barrier, the Fulmar North Sea oil project or Concorde, all of which turned out to be relative successes, even though the project control aspect of them failed.

It can therefore be argued that the relationship between the two is less dependent than was first

assumed, and in order to measure project success a distinction should be made between the success of a project and the success of the project management activity.

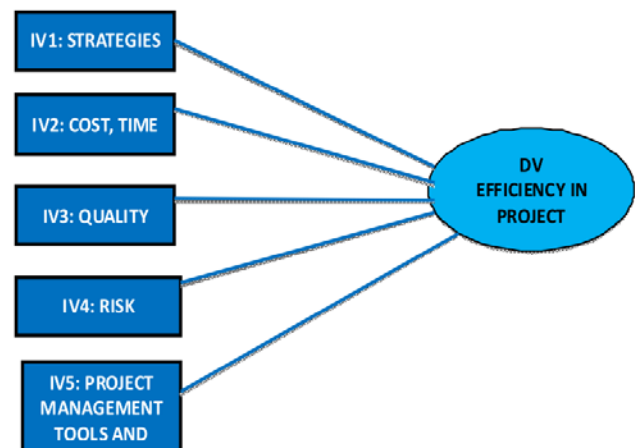
This paper attempts to provide logic for the distinction between project management and the project. Starting from a definition of the two terms, it will outline the factors which affect their success, the individuals involved and their respective orientations and the relationship between these elements. It also discusses the implications of the situation where the project fails but the project management process is perceived to have succeeded or vice versa.

## 2. REVIEW LITERATURE

Project managers apply knowledge, skills, tools, and techniques to project activities in order to meet or exceed stakeholders' needs and expectations. Often these needs include requirements that have not been identified earlier by the client. Project managers then undertake a "temporary endeavor . . . To create a unique product or service," (PMI, 2004, p. 5)—in other words, a project. A project can be considered to be the achievement of a specific objective, which involves a series of activities and tasks which consume resources. It has to be completed within a set specification, having definite start and end dates. Project management can be defined as the process of controlling the achievement of the project objectives. Utilizing the existing organizational structures and resources, it seeks to manage the project by applying a collection of tools and techniques, without adversely disturbing the routine operation of the company

Project management is the art of managing the project and its deliverables with a view to produce finished products or service. There are many ways in which a project can be carried out and the way in which it is executed is project management. Project management includes: identifying requirements, establishing clear and achievable objectives, balancing the competing demands from the different stakeholders and ensuring that a commonality of purpose is achieved. It is clear

that unless there is a structured and scientific approach to the practice of management, organizations would find themselves adrift in the Ocean called organizational development and hence would be unable to meet the myriad challenges that the modern era throws at them. Hence, the importance of project management to organizations cannot be emphasized more and the succeeding paragraphs provide some reasons why organizations must take the practice of project management seriously.



## 3. OBJECTIVES OF THE STUDY

The study covers the mainly following objectives

- Ø To identify the overlap between the definition of the project and project management and to discuss how time, cost, quality, strategies helps in completing the project with Efficiency.
- Ø To evaluate the list of benefits that the tools and techniques of project management enhances in completion the project.
- Ø To study the key determinants of that are important for managers to stay focused and steadily move ahead to achieve their strategic goals.

### 3.1. HYPOTHESES

- Ø There is a significant difference of efficiency in Project completion by taking risk, reducing cost, maintaining quality and completing within time the project.
- Ø There is a significant difference in managers using the project management tools and techniques in completing the project and achieving strategic goals.



### 3.2. SCOPE OF THE STUDY

Project Management is too big an area to be covered in a few pages and the attempt is to provide concise and lucid definitions of the various terms and terminologies associated with a project. It is important to note that project management provides a framework within which subsequent actions by the organization can be taken and in this way, it is essential for organizations to adopt the framework provided by the practice of project management.

### 3.3. LIMITATIONS OF THE STUDY

The research is confined to selected faculty members of faculty members. Respondents are reluctant sometimes in revealing their decision making practices in Project Management. The sample size is limited and confined to 20 Faculty members and Research Scholars.

### 3.4. DATA SOURCES AND METHODOLOGY

**3.4.1. Primary Data:** Questionnaire / personal interaction with Faculty members who handled the

projects of different universities and colleges are taken into consideration for data collection.

**3.4.2. Secondary Data:** The Secondary data is collected from Company reports/records, Books, Newspapers, Journals, Magazines etc.

**3.4.3. Research Design and Statistical Tools:** The research design consists of both Exploratory and Descriptive study. The statistical tools are used for analyzing the data. The tools are Cronbach's alpha, One-sample kolmogorov-smirnov test, Durbin-Watson and ANOVA.

### 3.4.4. Data collection instrument

**1. QUESTIONNAIRE:** Structured Questionnaire is used for conducting and collecting the data. 5 variables included in the questionnaire that includes 1 dependent variable and 4 independent variable. Each variable consists of 4 items.

**2. SCALE:** 5-POINT LIKERT SCALE (i.e., 1-Strongly agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree)

## 4. DATA ANALYSES OF PROJECT MANAGEMENT

### 4.1. Cronbach's Alpha Test

	Cronbach's Alpha	
Dependent variable	Efficiency in Project Completion	0.269
Independent variable1	Strategies	0.588
Independent variable2	Cost	0.53
Independent variable 3	Quality	0.526
Independent variable 4	Risk	0.538

Cronbach's Alpha is used for measuring the items of the variables of both dependent variable i.e., Efficiency in Project completion and Independent variables i.e., strategies, cost, risk and quality is less than 0.7 which indicates unreliability in measurement and there is no consistency between the inter-items through the dimensions used.

### 4.2. One-Sample Kolmogorov-Smirnov Test

#### One-Sample Kolmogorov-Smirnov Test

Dependent variable	Efficiency in Project Completion	0.857
Independent variable1	Strategies	1.516
Independent variable2	Cost	0.654
Independent variable 3	Quality	1.048
Independent variable 4	Risk	0.856

The Significance value for Efficiency in Project Completion, cost, quality and risk are  $> 0.05$  thus all the values are normally

distributed. The Significance value for strategies is  $< 0.05$  the values are not- normally distributed.

#### 4.3. R-SQUARE AND DURBIN-WATSON TEST

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.199 <sup>a</sup>	.040	-.217	.37532	1.315

a. Predictors: (Constant), Independent variable 4: Risk, Independent variable 3: Quality, Independent variable2:Cost, Independent variable1: Strategies

b. Dependent Variable: Dependent variable: Efficiency in Project Completion

The above table provides the  $R$ ,  $R^2$ , adjusted  $R^2$ , and the standard error of the estimate, which can be used to determine how well a regression model fits the data. The “R Square” called the coefficient of determination, which is the proportion of variance in the dependent

variable that can be explained by the independent variables. You can see from our value of 0.040 that independent variables explain 4% of the variability of our dependent variable. So, the variables chosen are not up to the mark and do not fit for the model.

#### 4.4. ANOVA

##### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.087	4	.022	.154	.958 <sup>a</sup>
	Residual	2.113	15	.141		
	Total	2.200	19			

a. Predictors: (Constant), Independent variable 4: Risk, Independent variable 3: Quality, Independent variable2:Cost, Independent variable1: Strategies

b. Dependent Variable: Dependent variable: Efficiency in Project Completion

**The F-ratio in the ANOVA table:** The table shows that the regression i.e. the predictability is 0.022 while the residual i.e. the error is 0.141. The F value is significant at 0.958 i.e.  $p > .05$  (i.e., the regression model is a not a good fit of the

#### 4. FINDINGS OF THE PROJECT AND PROJECT MANAGEMENT

Here comes the biggest challenge for the mid-management executives. They have to strike a balance between strategic and operational demands. They have to stick to achieve their strategic goals when operational activities are

always pressing them for time and effort. Even though the operational activities are always urgent and it is strategic activities that are most important for the future of organization. Therefore, it is important for managers to stay focused and steadily move ahead to achieve their strategic goals. But in practice, this is not easy.

Under the current recessionary business environment, organizations have started taking their strategic goals seriously. These organizations realize that short term urgencies are overwhelming their more important strategic focus. Operational urgencies will always be there but digressions from

strategic objectives cannot be avoided. This belief has led organizations to set up a Project Management Office as a unit which would plan, manage and monitor projects all across the organization.

#### **4.1. The success or failure of the project**

The meaning of a project has suggested that there is an orientation towards higher and long-term goals. Important parameters within the goals will be return on investment, profitability, competition and market ability. The success of a project is dependent on having a realistic goal, competition, client satisfaction, a definite goal, profitability, third parties, market availability, the implementation process and the perceived value of the project.

Only two of the items from this list would lie directly within the scope of project management as previously defined. These are the definitions of a goal and the implementation process. This would indicate that project management and its techniques are only a subset of the wider context of the project. Project management plays a role in project success but that role is affected by many other factors outside the direct control of the project manager. This would start to explain why projects can succeed or fail independently of the project management process.

#### **4.2. The success or failure of the project management**

The definition of project management suggests a shorter term and more specific context for success. The outcomes of project management success are many. They would include the obvious indicators of completion to budget, satisfying the project schedule, adequate quality standards, and meeting the project goal. The factors which may cause the project management to fail to achieve these would include inadequate basis for project, wrong person as project manager, top management unsupportive, inadequately defined tasks, lack of project management techniques, management techniques misused, project closedown not planned, lack of commitment to project. These factors would suggest that successful project management

requires planning with a commitment to complete the project; careful appointment of a skilled project manager; spending time to define the project adequately; correctly planning the activities in the project; ensuring correct and adequate information flows, changing activities to accommodate frequent changes on dynamic; accommodating employees' personal goals with performance and rewards, and making a fresh start when mistakes in implementation have been identified.

### **5. CONCLUSION**

Project Management and the practice of the same have become indispensable to the modern day project manager and they form the basis of much of what is achieved during the course of a project. Thus, the idea of a project being managed professionally lends itself to the concepts and processes laid out for the practitioners of the art of Project Management. The objectives of a project and project management are different and how the emphasis of project management is towards achieving specific and short-term targets compared to the wider aims of a project. The conclusion is that to make the project management team totally responsible for success would appear to be inappropriate and that the client should take an increased interest in the development and use of the project.

There also needs to be an improved distinction between success and failure for the project and project management interests. Project success could be assessed using three assessment criteria based not only on project management techniques but on other external criteria which are important for the successful implementation of projects, from conception through development and use, to the final closedown.

Thus, for a project to be successful there must, first, be an improved appreciation of the role of project management within projects, and this role must be placed within the context of a wider project alongside other outside criteria and long-term expectations. Second, the project manager must allow the client to contribute actively in the planning and production phases and at the same

time the project team involvement has to be extended into the utilization phase.

This would be accommodated properly in a project evaluation review technique that examines not only the implementation processes but also the economic and financial performance.

## 6. IMPLICATIONS OF RESEARCH:

Finally, one must always bear in mind that successful project management techniques will contribute to the achievement of projects, but project management will not stop a project from failing to succeed. The right project will succeed almost without the success of project management, but successful project management could enhance its success. Selecting the right project at the outset and screening out potentially unsuccessful projects, will be more important to ensuring total project success.

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# WORK LIFE BALANCE AMONG WOMEN EMPLOYEES IN IT SECTOR – A STUDY

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## ABSTRACT

*Work Life Balance (WLB) refers to the effective Management of Multiple responsibilities by an individuals both at work and at Home, the WLB impacts both the organisation and employee. This paper main objective is to study WLB of women employees with special reference to IT Industry, for this paper TCS and Infosys employees are selected for this study. This paper concludes by saying Heribility and supporties work environment must be created.*

## INTRODUCTION:

The Work Life Balance has become a major challenge in the contemporary business world due to changes both at the work place, and at the family front. In the world of severe competition and need to reduce costs and raise performance to increase productivity by the corporate world, has resulted in the long hours culture and 24/7 lifestyle has come to dominate the life's of highly educated and skilled professionals. The lure for lucrative salaries, a promise of ambitious careers on the employees' front is adding much to the problem. It was believed that the new technology would shorten the working hours and brings respite and leisure, to the employees, but instead of bringing relief and leisure the technology has left the employees especially professionals with little free time for family. In fact, technology has blurred the line separating office from home and now the employees are expected to be available for office work, even while at home, because of the IT network facilities. Thus, the work has become more taxing and burdensome. These pressure demands of the work, reflected in long hours, more exhaustion is leaving little quality time for the family. This imbalance is creating problems to the employees, the organisations and the society. Due to rapidly changing business environment, the organisations are not able to provide secured

employment and as a result of which the attitudes and the values towards work are also undergoing changes. The employees are less willing to display unconditional commitment to the organisation and are intending to leave the organisations.

Work Life Balance is a state of equilibrium in which the demand of both professional and personal life is equal. Each role having different sets of demands and when such role demands overlap, multiple problems crop up. In the real life situation, the work and life interact and overlap. A balanced life is one where one spread his/her energy and effort between these two key areas. Work Life Balance is the effective management of the responsibilities of an individual both at work and at home. The WLB offers benefits to the employees, employers and the society, in general. Employees tend to be loyal and committed to the organisation and give their best in achieving the organizational goals when their individual needs are taken care of. On the other hand, employer also reap the benefits in the form of highly motivated more productive and less stressed workforce. Such caring attitude by the employers attracts the talented workforce. Thus, leading to increases productivity reduced absenteeism turnover and well being of the society. Employees also will be happier at work and at home. A greater sense of responsibility devolves

on them and they develop a sense of ownership, better relations with the management, better health, non spill over of household problems to the work place and vice-versa. They behave in a matured manner where approached life and career and live a contended life. Thus, the need to achieve a better work life balance has been a pressing concern of the thinkers, managers and employees in the contemporary business environment.

On one hand, the work-life conflict occurs when the cumulative demands of both work and family are made incompatible with each other and in some respect, so that, participation in one role, is made more difficult by participation, on the other. Work/life conflict is defined as a form of inner role conflict in which the role pressures from the work and other life domains, such as family, are mutually incompatible in some respect, whereby participation in one role is made

more difficult by the virtue of participation in the other. Initially, the concept of work life conflict was focused on the impact of family demands on work. It now extends to the impact of work has on individual stress, relationships and family well being. Work life conflict may be characterized by a lack of fit between employees and their life responsibilities, and the goals of the organization. Work life conflict may include issues such as difficulties faced related to child-rearing, other kinship responsibilities or stressful life events.

For those in the employment, work and family are two important domains of life. The interface between work and family roles has generated intense inquiry among researchers who seek to understand the potential for both realms of adult life to create job satisfaction, family satisfaction and life satisfaction. There is however, the potential for conflict between these two domains and when it occurs, the conflict will have a negative impact on both the domains. Reducing work-family conflict has positive outcomes for both employers and their employees.

Family sphere changes that have impacted the work life balance of individuals include nuclear families, single parent households, dual earning

parents, parents working at different locations and increasing household work. Consequently, it has become very difficult to meet the family demands. Another change is the entry of women in workforce in a big way, while still continuing with their earlier role of a homemaker. As a result, women are playing a dual role, that of a breadwinner and also as a homemaker. Further, it is generally, women who take the primary responsibility for childcare.

India makes a stronger case for Work life balance given that the boom in other economy is a more recent phenomenon which puts the work force in greater stress than in developed nations. Further, India is a service destination for numerous global business firms due to the availability of cheap labour, many of who are required to work in night shifts. Most Indian IT professionals find it difficult to cope with the stress levels. Increasing work pressures and the rising need to travel for work are potential contributors to a new, mounting stress placed on corporate executives.

Keeping the gender apart and generally speaking, senior level employees face the maximum stress and pressure in the Indian industry. In a recent research conducted by the ASSOCHAM (Associated Chambers of Commerce and Industry of India) on job satisfaction levels, a majority of senior employees in both private and public sectors complained of high tensions, heavy workloads and long working hours. Besides, around 85 per cent of respondents in BPOs and call centres, engineering and construction companies, stock markets, textile and garment manufacturing units, export houses, retail malls and multiplexes, hotels and transport companies said they were dissatisfied with their jobs mainly due to work life balance issues. Most of them work for more than 60 hours a week, as compared to the 40 – 48 hour norm in Europe and the US.

When Work life balance is not maintained, a person begins to experience sense of emptiness and hollowness which is difficult to deal with. In addition, relationships take a beating and the person begins to experience loneliness, depression, despair and cynicism. A survey on career couples

by Team Lease shows that 54 per cent of the respondents felt they were merely a weekend parents. In addition, 34 per cent of the working couples surveyed felt that since there were two careers the chances of a divorce were high. Moreover, most participants agreed that working in odd shift hours had a bearing on their marital relationships.

The psychotherapists believe that mid-career professionals are most prone to having Work life balance imbalance. Since they believe that they need very little time to reach the position of desire. This crisis often leads to a tendency to overwork to achieve things faster, and the Work life balance gets disturbed. One must not act while she or he is facing this anxiety. Being led by the feelings can be disastrous, one must take time to understand the feelings and realize that it is natural to have those feelings. The work life balance is also essential for the professional growth of a person. Research has found that a healthy balance increases the individual's professional productivity due to a sense of greater self-confidence, it helps in the availability to communicate effectively and it boosts morale achieving organisational goal as well.

Thus, WLB has emerged as a strategic issue for HRM and a key element of an organization's employee retention strategies. Organizations need to be aware of the changing needs of employees and provide flexible WLB strategies in order to retain their employees. Organizations that seek to increase employee morale, commitment and satisfaction, and reduce sources of stress and problems at work, will improve their ability to recruit and retain talented and valued employees. The introduction of WLB strategies will be effective in reducing work/family conflict and will improve employees' job satisfaction.

### **Work Life Balance – Concept and Definition**

“WLB is about people having a measure of control over when, where and how they work”. This balance is achieved when an individual's right to a fulfilled life inside and outside paid work is

accepted and respected as a norm, to the mutual benefit of the individual, business and society.

Now an attempt is made to define the term ‘Work life balance’ as it is evolving over a period of time reflecting its focus on different contextual issues. In simple terminology, “Work life balance refers to a meaningful achievement and enjoyment in everyday life.” It is the measure of control one has over his/her time and work resulting in harmonious relationship between personal fulfilment and professional achievement thus leading to better organisational performance.

Work Life Balance refers to the effective management of multiple responsibilities by an individual both at work, at home. The Work Life Balance impacts both the organisation and employee. In the changed environment of globalization and heavy competition, organization are hard pressed for higher productivity on one hand, and improved work-life balance of employee, on the other, because better Work Life Balance will contribute more meaningfully towards the organizational growth and success, (Naithani, 2010)<sup>1</sup>. This issue has come to the fore due to multitude of changes in the work place, in employee demographics and in the family sphere.

On the basis of various theories of work life balance/work family conflict and various conceptual models presented above, it can be concluded that multiple factors related to individual, work and family affect the work life balance of an individual. Some of the major individual related factors include work orientation, gender age, life and career stage, personality. Work related factors include role ambiguity, role conflict, and number of hours worked, work schedule flexibility, task autonomy. Family related factors include number of children, spouse support, family involvement, etc. Work life balance results in a number of benefits to the individual and organization which include personal satisfaction and well being, job satisfaction, productivity. On the other hand, the lack of work life balance results in negative consequences in terms of work distress, job dissatisfaction, absenteeism and high turnover.

**Work Life Balance and Women Employees:**

A dominant force is drawing attention to work and family balance has been the increase in both the number and the proportion of women in the work place over the past twenty-five years. The number of women entering the work force has steadily increased and in a 2012 survey by the Families and Work Institute, the percentage of women was nearly equal to men: 51 per cent male, 49 per cent female. Over the same period, a dramatic shift has occurred with regard to of males in dual-earner households. 51 per cent of fathers were the sole wage earners in 1977 while in 2012 that percentage dropped to 33 per cent. Beginning in the 1970s divorce rates have increased and currently among employed parents, 20 per cent are single parents while 80 per cent live as couples. With additional women in the work force, there has been an increased concern in families about child care and elder care.

Striking a good work life balance is much more important for women than men. A new global research by Accenture, a consulting firm, found that around 70% of female respondents in India said that the WLB was key to their "Definition of success", their career while only 40% of men felt that. The study also found that the difficulty of balancing life and work is a key reason why women in India leave their jobs. While 25% of Indian men surveyed said that they quit the jobs because of long or inflexible working hours, for women that figure was 48% women have a number of roles to play throughout their life. Work life conflict occurs when time and energy demands imposed by divorce roles cannot be efficiently meet; participation in one role is made increasingly difficult by participation in another.

**Significance of IT Industry**

The Indian economy has witnessed a remarkable growth and transformation during the last two decades and IT has played a very vital role in this process, IT industry has been one of the hotshots of Indian economy. The sector has not only played a critical role in restructuring of the economy but also in making India as one of the major exporters

of services in the world. The growth and development of the sector has wedged the attention of the world market. India is now being identified as the major powerhouse for incremental development of computer software. The reason for this world interest is not the actual size of the industry but its rapid growth rate during last two decades (Chakraborty and Dutta 2006).

The phenomenal growth of the IT industry during last two decades and the emergence of the country as a top outsourcing destination in the world have made India one among the top IT nations. Due to rapid development in the sector many scholars have described this as a leapfrog development for the country (Mathur 2006). The sector has increasingly contributed to the national economy, employment generation and export earnings. The IT industry has increasingly played a vital role in transformation of the Indian economy. The industry has been growing at significantly higher rate than the average GDP. It has witnessed a rapid growth for more than last one decade.

The industry has grown at a CAGR of around 24 percent during 2001-09, which has substantially been higher than any other major sector of the economy. The IT industry has not only grown at a much higher rate than the overall GDP but except during the year 2002 and 2009, the growth rate has been above 20 percent annually. Although the global financial crisis in 2008-09 impacted the industry and the annual growth rate in 2009 slowed down compared to 2008, it maintained a positive growth rate of above 10 percent in 2009. In 2010 the industry is expected to grow by 5-4 percent, which is lower than the estimated GDP growth for the same year.

**Major Players of Indian IT Industry:**

TCS is country's largest IT Company and tops the BT 500 ranking based on its market performance. Further, 1 lakh strong women work force of TCS holds the company in highest steam – its gender diversity and goodwill making it the country's biggest employer of women in the private sector. Women now comprise one-third of the IT major's 3.06 lakh work force. This makes TCS also valued



company in India, one of the top employers of women in the technology sector globally. The top slot is held by IBM which has an estimated 1.3 lakh women out of total work force of 4.31 lakh. In terms of market cap, the next two players in the domestic IT market are Infosys with 54537 women employees and Wipro with 45000 employees. The IT and BPO sector collectively employees about 3.1 million of which nearly 1 million are women. Within TCS, a major chunk – over 40% of its women employees are either new recruits or at junior levels, while about 11% are in the senior management.

Though these tech-giants improved their gender diversity, there is a significant attrition after women rise to the mid management level. Therefore, corporates have adopted several family friendly WLB strategies. The programmes like Re-Orientation, Stay Connected and iEXCEL as part of which companies familiarize the employees with the leadership opportunities and positions available. They are also taught to manage diverse teams and roles, and get other woman employee handling leadership roles to talk to them.” TCS conducts two-three iEXCEL programmes a year and each has at least 20-30 participants.” As a result of this, middle level women attrition levels have come down dramatically with these programmes.” The company’s overall attrition level is at 12 percent, while the industry attrition is higher at 14 percent. In 2015 alone, about 1500 employees left the TCS. It is interesting to note that the exodus in TCS comes despite the TCS announcing the bonus of Rs.2628 crores for its employees. TCS closest competitor in India - Infosys - reported a record high annualized attrition of 20.4 per cent. Infosys managed to bring it down to 18.9 per cent. Services firm Infosys Technologies Ltd, which set up a Women’s Inclusivity Network in 2003, offers connectivity at home and part- time working options to retain women at work. Vaahini, a networking forum at Accenture India Pvt. Ltd, offers mentoring and counselling options for women employees across all levels of the company.

Further, only 12-13 percent of the senior management roles in TCS are occupied by women, though 33 percent of the company’s 3,35,000 workforce are women. When there are 33 percent women at the company level; there is no reason why not to have 33 percent women at senior most levels.”

Therefore, the present study of Work life balance and Job satisfaction of Women employees of these two IT giants of India viz. TCS and Infosys becomes a contemporary relevant topic.

### **Review of literature:**

The studies conducted by Ross (1961), Cormack (1961) and Dube<sup>16</sup> (1963) reveal that one of the main reasons of marital conflicts among educated working women is basically the pattern of family which continues to be traditional and male dominated.

Mehta<sup>18</sup> (1970) in her study “the Western Educated Hindu Women” examines the impact of western education and alien influences on Indian society. This study shows that because of the emergence of new values there is an awareness among Indian women that the past must be harmonised with the present.

Research findings of the study by Chatterjee (1970)<sup>19</sup> are: (1) Children of working mothers are more talented than the children of non-working mothers. (2) Children of working mothers are less vulnerable to nervous disorders than the children of other group. (3) Employment of mothers makes their children more alert, more aware and more observant than the children of unemployed mothers, etc.

The study conducted by Srivastava<sup>24</sup> (1972) on “Employment of Educated Married Women: Its Causes and Consequences with reference to Chandigarh” examines the changing attitudes of educated married women. This study finds that working women develop a sense of guilt. This is mainly due to the realisation of the fact that proper and all round development of children need constant attention and physical presence of mothers. This study provides evidences to prove

.that working women have relatively more liberal and permissive attitude towards their children than non working mothers.

Mathur (1992)<sup>39</sup> in her study “Women, Family and Work” examines the motivational factors for women’s employment and the problems of role conflict. The ways in which employed women can strike a balance between their dual roles are also looked into. This study finds that supplementing family income is the most important motive for women, to work; other important reasons for women’s employment in order of preference are: social affiliation; enhancing esteem; having security and achieving self-fulfilment: As this study reports the decision to take up a remunerative job is a function of women’s ability to balance their dual roles. Hence, their success depends on’ how better they please their husbands and other family members with dual roles. This study further reveals that working women face problems more or less due to dual roles depending on the extent to which they participate in these roles.

Swarajyalakshmi (1992)<sup>40</sup> in her study ‘Women at Work’ finds that most of the working women have experienced substantial difficulty in managing their dual roles. This study observes that the status of the wife in the family has improved because of employment. However, her husband is still not prepared to relinquish his patriarchal privileges. He wants to control the income of his Wife and expects her to give more importance to domestic roles than the job role. This study, further, states that a large number of women are’ not allowed “to spend their incomes independently. Whenever a wife tries to exercise a right over her earning, she faces clashes. As this study reveals the unemployed women are jealous of the independent personality, economic independence, freedom and high standard of living of employed women. These non-working women are not allowed to secure jobs generally by their husbands or others.

The above review of literature reveals that there have been a few studies on women and their problems, in general but only a very few on their

employment and work life balance. As far as the disciplinarian background of the studies is concerned, most of the researchers are drawn from Sociology, Economics and Social Work. Only very few are from Management and Human Resource point of view. Although the discipline of management, mainly deals with human resources, its background setting and behavioural studies are found in scant. The present study moderately attempts to study a small gap in the existing literature and throws light on further areas of research in the field. Further, no research study has covered intensively the impact of Work Life Balance on Job satisfaction, particularly, of women employees in IT sector (which is of recent origin and development in the Indian environment). Hence, the present study becomes relevant.

### **Objectives of the Study:**

In the above backdrop, an attempt is made in the present study to investigate into Work Life Balance and Job Satisfaction of women employees work life balance and thus leading to job satisfaction of women employees of select IT organizations viz., Tata Consultancy Services (TCS) and Infosys, the major IT companies of the country and suggest measures for the improvement in their Work Life Balance and Job Satisfaction. The specific objectives of the study include:

- 1) To study work life balance of women employees with special reference to IT industry, in an overall manner.
- 2) To analyse personal and family related factors affecting work life balance of women employees of select IT companies.
- 3) To suggest measures for improving the Work Life Balance among women employees in the light of the findings of the study.

### **Database and Methodology**

The present study is based on primary and secondary data. The relevant secondary data is collected from various libraries while relying on annual reports, manuals, books, periodicals, documents, reports, statistical abstracts, websites and Google searches. In this process the scholar

visited different libraries such as ICSSR, CESS, Osmania University, Academic Staff College of India, Libraries of the TCS and Infosys at Hyderabad. The papers presented in different conferences on women studies conducted by Kakatiya University, Osmania University etc. were also consulted for the purpose of the study.

The relevant primary data is collected with the help of a structured questionnaire which was partly open-ended. The questionnaire consisted of questions on individual, family related, organisational practices and Job satisfaction. The questionnaire was pre-tested before the field work. Interview technique was adopted to collect the primary data from the respondents. Employed women respondents are classified into three categories; a) Top level; b) Middle Level and c) Junior Level women employees. Information collected through interviews was tabulated to quantify the same by classifying it accordingly to the nature of answers given by the sample respondents. Responses were codified and presented in tables accordingly. Quantitative analysis was done by grouping the data in terms of study variables such as employment status, income level and age of the respondents, etc. A non-participant observation method was also adopted and on the spot expressions was noted down to supplement the primary data, which in turn helped the researcher to correct explanations.

### **Sample**

A two stage sampling method is used in the present study. In the first stage, two IT majors — TCS and Infosys from among the several IT companies are selected for the study. In the second stage, with regard to selection of sample women, all the married women employees working in TCS and Infosys at Hyderabad formed the universe of the present study. A total sample of 433 women employees consisting of 283 from TCS and 150 from Infosys were selected for the present study.

### **Scope of the Study**

The scope of the present study is confined to married women employees of TCS and Infosys of

Hyderabad city. Their status at domestic level and also at work place and impact of these two on their job satisfaction forms the basis of the present study. Hyderabad city is chosen for the field study as it is not only the capital city of the State of Telangana and also a hub of IT industry in the entire country. Hyderabad is a fast changing industrialized city and it generates metropolitan culture and modernization. Therefore, Hyderabad city is selected for the study. Women employees working in major IT giants of the country viz., TCS and Infosys are selected as these two companies are the major recruiters of women employees.

### **Tools of Analysis:**

For the purpose of analyzing the data, mathematical techniques like Ratios and percentages are used. Likert 5 point attitudinal scaling technique is used to identify individual, family related, organisational WLB practices and job satisfaction of women employees. Descriptive statistics such as mean, standard deviation etc. are used. Analytical statistics such as ANOVA, correlation, regression etc. are also used to study the impact of individual family related, organisational practices on the work life balance of women employees and finally on their Job satisfaction.

### **Finding of the Study:**

Earlier studies established that the majority of the women got into employment due to financial reasons. Increasing women's education, growing pressure on middle class families for enhancing the family income are the other factors responsible for the entry of women into employment. When enquired about the reasons for entering into the present employment, the respondents gave different reasons which are tabulated and shown in Table – 1.

**Table-1**  
**Reasons for Taking up the Employment by Sample Women Employees**

<i>Reasons for Taking up the Job</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
To make the family more comfortable	87	30.7	49	32.7	136	31.4
When family income is inadequate	17	6.0	17	11.3	34	7.9
When women feel like attaining economic independence	43	15.2	28	18.7	71	16.4
Unmarried women to make money for their marriage	51	18.0	15	10.0	66	15.2
Only ladies having no other source of income	73	25.8	27	18.0	100	23.1
To elevate status of women	12	4.2	14	9.3	26	6.0
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data

The analysis of Table – 1 reveals that a majority of 47 per cent of the sample women employees entered their present employment due to financial reasons like to become self-sufficient and to supplement their family income followed by 15.5 per cent of respondents stating that it was out of interest. The remaining 38 per cent of the employees stated certain social reasons like to spend time (13.9%) then didn't like to waste the education (10.6%), and husband's pressure (9.7%). The parental pressure was only insignificant with 3.5 per cent. It is because of the fact that a great majority of women employees got into employment after their marriages. Intercompany comparison almost gives a similar trend. It is evident from the analysis that the economic condition was the prime factor in determining the status of women employment. Increase in

women's education, growing pressure on middle class families for enhancing the family income and lucrative employment opportunities in IT sectors are some of the factors responsible for large participation of women. Another dimension for motive to work mostly among the professional women who do not like to waste the education by sitting idle and work for self-sufficiency.

### **Initiation for Women Entering into Employment**

From Table-2 it was evident that majority of them entered into employment for economic reasons such as self-sufficiency etc. when enquired into the fact has to who initiated (or) motivated to get into the present job. The responses given by the sample respondents is shown in Table – 2

**Table – 2**  
**Initiation for Women Employment**

<i>Initiation</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Out of own interest	219	77.4	118	78.7	337	77.8
Husbands interest	34	12.0	19	12.7	53	12.2
Parents interest	27	9.5	13	8.7	40	9.2
Others	3	1.1	0	.0	3	.7
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.



An analysis of Table – 2 amply reiterates the fact that women on their own are entering into employment as a great majority of 77.8 per cent of the women employees, on the whole, reporting it followed by husband's interest (12.2%). Third place was occupied by the parents' interest (9.2%) and in others category it was below 1 per cent. As per the Indian traditions parents' do not show interest with regard to women/daughters employment before marriage. After their marriage, either it is husband (or) their own domain to take a decision with regard to their employment. The fact that more than 3/4<sup>th</sup> of the respondents got into employment out off their own interest amply supports the fact they have strong desire to become self-sufficient and economically independent. This

also speaks of the changing mindsets and attitudes of women to prosecute higher education, desire to get into employment and their by becoming economically independent. It can also be noted that a significant proportion of sample women employees got into employment (12.2%) due to husband's initiation.

### Domestic Work of Women Employees

Though women are working in office which is a symptom of modernization and changing life styles, the traditional responsibilities of domestic work, child care and elderly care continue to the responsibilities of women employees. The Table-3 shows the domestic work of the sample women employees of IT industry.

**Table – 3**  
**Domestic Work of Women Employees**

<i>Domestic Work</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Looking after the domestic work	250	88.33	132	88.0	382	88.12
Not Looking after the domestic work	33	11.67	18	12.0	51	11.18
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

Table-3 confirms the fact that women employees are compelled to take up two fulltime jobs one at the domestic level and the other at the office level. The belief that women only should look after the domestic work is not changed in spite of their education and employment. A great majority of 88 per cent, on the whole and in the two select IT companies were attending to domestic work while only 12 per cent were not looking after the domestic work seriously. Priority of family role has so much internalized by the women that she herself doesn't not protest against the double burden but on the other hand feels guilty if they don't take up domestic work

### Number of Working Hours and Domestic Front

Because of the two full-fledged duties at both office and home, they hardly had any leisure time to relax or to attend to some social work. Right from morning 6 till they go to office and after returning from office around 6 in the evening till they go to bed around 10 at night they will be busy attending to one or the other domestic work this domestic work is in addition to a full-fledged office work from 10 in the morning till 5 in the evening. The data relating to the number of hours of domestic work by women employees is given in the Table-4.

**Table – 4**  
**Number of Working Hours and Domestic Front**

<i>Number of Working Hours</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Below 2 Hours	60	21.20	35	23.33	95	21.93
2 to 4 hours	110	38.86	65	43.33	175	40.41
4 to 6 hours	92	32.50	40	26.66	132	30.48
6 hours and above	21	7.42	10	6.66	31	7.15
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

It is evident from Table-4 about 78 per cent of the sample women employees working on domestic activities ranging from 2-6 hours and above while another 27 per cent were working for below 2 hours. Those who were working for below 2 hours belonged to top managers position as they were supported by their domestic servants. Among the middle level and junior level employees the pressure is more towards long hours of domestic work. Thus, the employed women did double work and had hardly any leisure time.

#### **Husband's help in Domestic Work**

With the growing in the nuclearity of families, women has to relay on sharing of work by husband and children sometimes. In a traditional setup and joint families system the domestic work will be attended to non-employee members of the family. Sometimes, husbands consider as below dignity to help his wife in domestic work. But in the changed environment the husband's help is essential. The opinions of women employees on husband's help in domestic work is shown in Table-5

**Table – 5**  
**Husband's help in Domestic Work**

<i>Husband's Help in Domestic Work</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Very inconsiderable extent	84	29.7	86	57.3	170	39.3
Inconsiderable extent	40	14.1	10	6.7	50	11.5
Considerable extent	52	18.4	23	15.3	75	17.3
Great extent	69	24.4	16	10.7	85	19.6
Very great extent	38	13.4	15	10.0	53	12.2
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

An examination of Table-5 shows that a majority of 39.3 per cent of the women employees the husband's help in the domestic work to very 'inconsiderable', extent, followed by 19.6 per cent respondents stating it to a 'great extent', 17.3 per cent of women employees stated that the husband's help in domestic work is to the 'considerable extent'. On enquiry into the reasons for non-help by the husband's was due to the following reasons.

- Husband's are also employed
- They were busy looking after the children (or) other works like bringing vegetables from the market.
- Helping wife in domestic work is below dignity as the domestic work is the domain of women.

### Arrangements of the Children and their Education

There is no second opinion that the type and quality of domestic servants cannot substitute working mothers taking care of their children but due to

the dual role of women employees they are left with no other alternative than leaving the children in the hands of servants. The data relating to the arrangements for children is given in Table-6

**Table – 6**  
**Arrangements of the Children and their Education**

Arrangements for Children and their Education	Organization				Total	
	TCS		Infosys		F	%
	F	%	F	%		
Highly dissatisfied	0	.0	4	2.7	4	.9
Dissatisfied	109	38.5	83	55.3	192	44.3
Neither satisfied nor dissatisfied	91	32.2	37	24.7	128	29.6
Satisfied	24	8.5	6	4.0	30	6.9
Highly Satisfied	59	20.8	20	13.3	79	18.2
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

Table – 6 reveals that 44 per cent of the women respondents stated that they are unsatisfied with the arrangements to take care of the children in their absence. While 29.6 per cent were undecided. A significant portion of 18.2 per cent of the women employees stated that they are very much satisfied with the arrangements. A few of the women employees were also apprehensive of the substitute arrangements as it may lead to improper socialization of children.

Kapur<sup>3</sup> feels that the breaking of the joint family system has made the children of the nuclear family feels quite lonely, lost, confused and emotionally insecure. This makes them turn to pop music, movies, cheap literature and other means of

communication and identification, which are liable to exchange them even more from the older generation.

### Satisfaction with Time Devoted to the Children

Next to teachers, mothers play a very important role in shaping the attitude behavior and personalities of their growing children. The children imbibe the value systems from mother and father with far reaching implications in their future. Punctuality, discipline, honesty, ethics and value system are imparted to the child by mothers. The opinions of the human employees on the levels of satisfaction with the time devoted for their children given in Table-7.

**Table-7**  
**Satisfaction with time Devoted for the Children**

S.No.		TCs (%)	Infosys (%)	Total (%)
1.	Highly satisfied	61 (21.55)	24 (16.00)	85 (19.63)
2.	Satisfied	85 (30.03)	36 (24.00)	121 (27.94)
3.	Neither satisfied nor dissatisfied	30 (10.60)	08 (5.33)	36 (8.74)
4.	Dissatisfied	97 (34.27)	74 (49.33)	171 (39.49)
5.	Highly dissatisfied	10 (3.53)	08 (5.33)	18 (4.15)
	Total	283 (100.0)	150 (100.0)	433 (100.0)

**Source :** Compiled from Questionnaire data.

Table - 7 reveals that, on the whole, about 40 per cent of the respondents are dissatisfied with the time devoted for the children followed by about 28 per cent of them who were satisfied. 19.63 per cent were highly satisfied, while 8.77 per cent of the respondents are indecisive. On the whole, a majority of 52 per cent of the respondents belong to dissatisfied, highly dissatisfied and indecisive category of employees, while 47 per cent were satisfied. This indicates that as a consequence of the employment they are neglecting their families for which they feel guilty. Dissatisfaction with the time devoted for their children created role conflict in working women and as a result of which they are not in a position to do justice for either of the roles and felt constant tension in day-to-day life.

### Interference by the parents-in-law

In traditional joint family system daughter-in-law are supposed to be obedient and subservient. In spite of the fact they are educated and employed. As a matter of social responsibility the daughters-in-law have to take care of their parents-in-law when they are very old. At the sometime the parents-in-law are supposed to help the daughters-in-law in small domestic works as particularly when they are employed. Though majority of the employees belonged to nuclear families many of them parents-in-law had opinion on mother-in-laws treatment of the employed women is given in Table-8

**Table-8**  
**Opinion on parents-in-law help**

Opinion on Parents-in-law Help	TCS		Infosys		Total	
	F	%	F	%	F	%
Highly satisfied	30	10.6	15	10.0	45	10.3
Satisfied	60	21.2	35	23.3	95	21.9
Neither satisfied nor dissatisfied	50	17.6	30	20.0	80	18.4
Dissatisfied	100	35.3	50	33.3	150	34.6
Highly dissatisfied	43	15.1	20	13.3	63	14.5
Total	283	100.0	150	100.0	433	100.0

**Source :** Compiled from Questionnaire data.

An analysis of Table-8 shows that 34.64 per cent of the women employees stated that they were dissatisfied with their parents-in-law help at domestic front, while another 14.54 per cent were highly dissatisfied. This indicates that the mother-in-laws are continuing their old legacy of dominating daughters-in-law without any change in their attitudes and also finding fault with their activities. However, about 22 per cent of their respondents stated that they are satisfied with their parents-in-law help and another 10.3 per cent are highly satisfied because their mother-in-laws were kind and considering. Really it is a welcoming future to observe a change in their attitudes of mother-in-laws. It was because that they were doing well paid jobs and most of their income is

spent on household. A significant portion of the women employees were indecisive which was due to the fact that they were not living with their parents-in-law.

### Financial Freedom of Women Employees

As a matter of tradition the women do not enjoy any property rights. The committee on status of women found that female members have very little control over the family resources nor they can spend their own salary income on purchase of household equipment clothes, shopping etc. Opinion of sample respondents with regard to financial freedom of spending salaries is given in Table – 9



**Table – 9**  
**Financial Freedom of Women Employees**

<i>Financial Freedom</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Most of the time	22	7.8	5	3.3	27	6.2
Often	4	1.	27	18.0	31	7.2
Occasionally	75	26.5	36	24.0	111	25.6
Rarely	144	50.9	66	44.0	210	48.5
Never	38	13.4	16	10.7	54	12.5
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

It is evident from Table-9 that 48.5 per cent of the respondents had the freedom to spend their salaries 'rarely' followed by 25.6 per cent stating that they spend their salaries occasionally. Another significant proportion of 12.5 per cent had never spent their salary. Only 13.4 per cent of the respondents spend their salaries under the 'most of the time' and often categories. There is a belief that there is a link between financial freedom and earning capacity, but they contrary is the case. This is happening in spite of women's substantial

contribution to the family income. There is a need to change in the mind sets of family members particularly husbands to give financial freedom to their female counter parts.

#### **Decision-making in Critical Matters**

Decision-making in critical matters relating to family include running the household say in the construction of house, marriage of children etc. The opinion of the sample respondents is shown in Table-10

**Table-10**  
**Decision-making in Critical Matters of the Family by Women Employees**

<i>Financial Freedom</i>	<i>Organization</i>				<i>Total</i>	
	<i>TCS</i>		<i>Infosys</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
Most of the time	22	7.8	10	7.5	32	7.40
Often	60	21.2	36	24.0	111	25.6
Occasionally	42	14.8	36	24.0	78	18.0
Rarely	122	43.1	37	24.7	159	36.8
Never	37	13.1	16	10.7	53	12.2
<b>Total</b>	<b>283</b>	<b>100</b>	<b>150</b>	<b>100</b>	<b>433</b>	<b>100</b>

**Source :** Compiled from Questionnaire data.

Table-10 reveals that 36.8 per cent of the women employees were involved in critical matters of the family 'rarely' while 12.2 per cent of the women employees were 'never' involved. Another 50 per cent of sample respondents were involved in decision-making relating to critical matters of the family. Ranging from 'most of the time' (7.4 per cent), 'often' (25.6 per cent) and 'occasionally'

(18.0 per cent). It is evident from this that though women employees are earning members of the family. It is the husband who pre-dominantly takes the decisions on critical matters of the family while women employees are given second grade citizen's treatment. It is also evident that there is a significant change in the mind sets of husband's

to their female counter parts in decision-making on issues relating to family. It was due to the factors like prevalence of nuclear family, their education, exposure to outside world because of employment and urban culture etc. as reasons.

### **Suggestions:**

In the light of the above findings, the following suggestions are offered for improving Work Life Balance and job satisfaction of Women Employees in general, and of IT sector, in particular. To reach the goal of Work Life Balance for each of the actors to work together and complement each other's efforts. The total combined impact could be greater than the sum of the parts.

Organizations should continue to act in their self-interest by expanding the array and reach of "family-friendly" benefits and practices to better enable workers to contribute to their business objectives and meet their family and personal responsibilities.

Role for government agencies is a key to complement the participants in a systemic approach to advancing work and family integration. The role of government needs to be recast as a catalyst for private actions, addressing the needs of workers and families that private actors will not or cannot reach on their own. While we emphasize a recasting of the perspective and processes by which government influences private efforts, government must also be the force to ensure that basic minimum standards for work and family life are available to all. The government agenda should deal with (a) issues of care, (b) flexible employment relations, and (c) national and local work-family councils.

Managers, employees, and employee representatives should work together to redesign work systems, processes, and schedules to meet the dual agenda of improving work and organization performance, and personal and family life.

There is no "one size fits for all solution" to the issue of work-life balance. The data from this study show quite clearly that different policies, practices

and strategies will be needed to reduce each of the four components of work-life conflict: role overload, work to family and family to work interference and caregiver strain. The solution will also vary depending on lifecycle stage, career stage, job type, sector, gender, generation, and diversity group.

To reduce work-life conflict and improve overall quality of life, organisations need to focus their efforts on four sets of initiatives:

- 1) Increasing the number of supportive managers within the organization,
- 2) Providing flexibility around work,
- 3) Increasing employee's sense of control, and
- 4) Focusing on creating a more supportive work environment.

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# ROAD BLOCKS TO CHINESE OBOR INITIATIVE; INDIA'S STAND VINDICATING

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## ABSTRACT

*The government of India has allocated initially Rs. 10,000 crores for defence department and Rs. 5000 crores has been earmarked for integrated military infrastructure development plan for the strategically located Andaman Nicobar Archipelago which is nearer to the Malacca Strait. Further, the government of India floated Indian Development Assistance Scheme (IDEAS) with a aim to counter China's OBOR initiative and declared in Indian parliament, recently as the world's six largest economy, the government would like to provide more funds for the scheme (IDEAS) to enable India to provide concessional financing for development projects in the immediate and neighbourhood countries. To face or to over come the threat from China, India requires long-term fiscal support to build naval base and navy, that is only the way out left for us.*

The One Belt One Road (OBOR) is a game changer in the region and in India obviously has serious security concerns about possible impact of OBOR in its neighbourhood. The initiative, OBOR has created ripples in economic, strategic and political spheres not just in the neighbourhood countries but around the world by this mammoth project. The ingredients are opportunities for using the surplus fund, utilization of excess capacity and providing connectivity to new fund markets through, both on land and on sea routes would provide by the China. Except some half hearted efforts as a project such as "mausam<sup>1</sup>" there is no concrete proposal to respond or to challenge to growing influence of China which will alter the strategic balance in the region. This paper tries to examine the impact in all its dimensions.

Chinese president Xi Jinping revived and declared the Martine Silk Road (MSR) project in 2013 during his visit to Kazakhstan primarily to boost the countries manufacturing sector and to improve trade relations with South East Asian neighbours. Since then several countries on the Eurasian Belt evinced interest initially in the project<sup>2</sup>. India, however not made up its mind and hinted lack of clarity, sovereignty, transparency and financial, security issues are reasons shown for hesitation in the beginning. An ambitious New Silk Road

project, later termed it as One Belt One Road (OBOR) a massive strategic infrastructure project, with a one trillion fund, which aims to connect over 100 countries spanning four continents. The OBOR embeds for the search and development of new markets and investment destination following economic down turn in the West.

China's rapidly expanding footprints speaks volumes about changing the world order, as it represents new phase in China's evolution with president Xi Jinping initiating major changes to its polices, domestic and foreign. This has been particularly evident in the foreign policy. The One Belt One Road (OBOR) programme supporting by the BRICS Development Bank, and the Asian Infrastructure Investment Bank (AIIB) – symbolizing China's growing influence in development in financing its mega projects. These initiatives are aimed to expand China's business and to sell its excessive capacity in manufacturing sector to Central Asia, South Asia, East Asia, Africa and West Asian countries. And also to Latin America and Indian Ocean littoral countries, through various corridors that China initiated under OBOR programme. China wants to build a land based Silk Road Economic Belt and a 21<sup>st</sup> Century MSR. Through these initiatives Beijing aims to create a new International environment,

which will limit strategic pressure from the US. These steps multiply China's future economic development enterprises and Beijing is trying to promote them as pure economic and trade initiative<sup>3</sup>. Therefore, these initiatives of OBOR adversely impacting India in terms of economic, strategic and sovereignty.

### **History of Chinese Economy**

Since introduction of economic reforms in 1978, China experienced high growth rate in the last few decades and became a world's second largest economy, pushing Japan into 3<sup>rd</sup> position. It ranked 9<sup>th</sup> in the national gross domestic product with USD of 214 bn and after 37 years today, it jumped to second place with 9.2 trillion USD<sup>4</sup>. The country to overcome backwardness decided to shift base into a hard core capitalist economy from a communist socialist society with high growth rate of 10.6 percent in 2010. Till the time of Mao jedong's death in 1976 China was more backwardness than India. Only after Den Xiaoping the 2<sup>nd</sup> generation of Chinese leadership who pushed both reforms that reshaped the country's economy with introduction of market driven mechanism and reduced government control over economy. When Xi Jinping became a president to lead fifth generation of Chinese leadership he unveiled an ambitious reform agenda from capitalist economy to market economy with high growth rate in the world. But, however, the Chinese economy has been struggling over since from high debts and languishing exports and its continues current slowdown in its economic growth rate since 2011 from two digit growth rate of 10.6 in 2010 to 6.9% in 2015 and in 2018 the growth rate recorded 6.5%, slowest growth rate since last 30 years<sup>5</sup>.

### **China's Rise in the Indian Ocean Region**

The People's Republic of China (PRC), under its reforms and polies initiated by Deng Xioping in 1978 has surpassed the US in its economic performance achieving an exponential growth. China has net assets of \$2.3 trillion compared to the US of 2.5 USD trillions. Chinese exports value surpassed the USA exports in 2007 and Chinese fixed capital investment overtook US investment

in 2009. Similarly, manufacturing output and energy consumption exceeded US levels in 2010. Chinese defence expenditure will be surpass the US in absolute terms by 2025. Above all, China has become world's second largest economy in 2010 overtaking Japan and is estimated to surpass the US by 2027. China's military expenditure four times more than India at present, second largest spender after US with \$ 250 bn<sup>6</sup>.

In the ancient period China's Maritime forces has mainly centered on the pacific, but with changing international status quo supremacy over Asian's Maritime sphere, especially over the waters between the Indian Ocean Region and South China Sea, has become a Beijing's one of the primary strategic goals. Due to this, China's national security is heavily dependent on the safety and security of the sea routes in order to sustain its rapid economic development and increasing power projection. The quest for security can be understand in the context that more than 70 percent of China's energy imports are transported through shipping lanes in the Indian Ocean Region (IOR), with major strategic chock points at Malacca Strait<sup>7</sup>.

Hence, to secure its strategic goals, China is expanding its military posture and naval modernization in the Indian Ocean. Srikanth Kondapally notes that with this "China could be testing the waters in the Eastern Indian Ocean, including its ability to its bases in the region. The strategic interest of China in the Indian Ocean is driven by its deep seated security dilemma which drives its ambition in building an ocean capacity to become an active player in the region, to project power in the Indian Ocean Region in rivalry not only with India but primarily with the US. This is primarily driven by the need to secure freedom of navigation in Indian Ocean, whereby China faces a Malacca Dilemma, as 80 percent of its petroleum imports, passes through the Indian Ocean from the strait of Mulacca, China may faces obstacles from US and India

China's security dilemma vis –a –vis US is posed by the US navy's dominance of high seas stretching from the Persian Gulf to the Indian



Ocean to the South China Sea. China's strategic thinking in the Indian Ocean is guided by a fear of US containment of PRC – by roping, in Indian Ocean littorals within Indo-Pacific framework and American's prowess in holding of China's sea dependent economy hostages in times of crisis, mainly the Malacca Straits which is maritime portal for virtually China's Persian Gulf Oil<sup>8</sup>.

It is not exaggeration to say that whoever controls' The Strait of Malacca will also have a strong hold on the energy route. Excessive reliance on this strait has bought an important potential threat to China's energy security. Apart from the US security threat, China's interest in the Indian Ocean is also guided by the dominant presence of India in the region. India, by virtue of its geographic location and given its potential to be great power together with its aspirations runs antogonise to a rising China's quest to gain strategic and hegemonic spare as an off-shore region.

Furthermore, China recognizes India's requirement for energy security, which it anticipate as another challenge to its own energy procurement. This external influence to China's Indian Ocean seems apparent in the official statements and observations of authoritative scholars confirmed that, China's dominant thinking on the Indian Ocean which is majority drivers by the presence of two dominant powers, the US and India. Hence, China's strategic interest in the Indian Ocean Region is to safeguard the expanding national interests – trade and energy.

China's responses to its energy vulnerabilities and quest for great power in the Indian Ocean vis- a-vis India and the US is seen as a soft power policy with a long term aim to secure a strong Maritime position. But China's Indian Ocean strategy in terms of its military presence in the Indian Ocean Region has raised concerns among the regional players particularly for India. China's strategies in the Indian Ocean Region are in terms of its naval activities, China's string of Pearls strategy and China's Maritime Silk Road Strategy.

The Peoples Liberation Army Navy (PLAN) been expanding itself and reconfiguring its role in view

of changing circumstances and the growing importance of the Indian Ocean. The PLAN growing operations in the Indian Ocean reflect China's desire to improve its ability to combat perceived threats to sea routes vital to its economic development. It has been argued by the PLAN strategists and academics that the USA uses the 'First Island chain to "encircle" or contain China and to prevent PLAN navy from operating freely beyond China's immediate periphery. A Chinese nuclear submarine "Chagzheng -2" along with the support ship "Chamxing Dao" docked from 7-14 September 2014 in the Colombo International Container terminals in which China has invested \$ 500 mn, clearly signaling the possibility of using commercial infrastructure and built by them for military purpose. The PLA navy has been progressively increased its Maritime influence by transforming itself from coastal defence navy to force capable of sustained open- ocean operations which is reasonably commensurate with China's super power status.

Apart from this, China has been deployed submarines in the Indian Ocean that has raised concerns for Indian navy. In the past China deployed its Jin class submarines in 2008 at the submarine base near sanya in the Southern tip of Hainan, raising alram in the India as the base is merely 1200 nautical miles from Malacca strait and is its closet access point to the Indian Ocean. It is also reported that Chinese navy appears to be building "expeditionary Maritime Capabilities"<sup>9</sup> and could also use nuclear- powered submarines such as the DE – 21D, anti-ship ballistic misciles to threaten India within the region frequently. China's nuclear submarines are also docking in the Indian Ocean littoral countries ports, such as Gwadar port in Pakistan, Hambantota port in Srilanka, Djibouti port in Africa on the pretext of protecting its sea lanes of communication. For this purpose only China has developed a strategy to establish ports for naval and as well as military purposes, called as 'String of Pearls' plan of action. As a part of Maritime Silk Road or OBOR initiative. China building railways, ports, power plants, roads, bridges and to create other

infrastructure facilities which are aimed to improve connectivity both on the land and on the sea, called as Chinese BRI Strategy.

Therefore, China's Indian Ocean Strategy which aimed to protect and enhance its interests in the region- are in turn generating apprehensions in Indian strategic circles, there by endangering a classic security dilemma between two Asian giants. Naturally India has its own fear and apprehension about perception of China's growing naval prowess in the Indian Ocean that is driving Indian naval posture.

### **China's String of Pearls Strategy**

Indian Ocean was no longer just the Ocean of Indians, armed conflicts in this area were also taken into account. It is often argued that, 21<sup>st</sup> century will be a century of Asian countries, as right from the Industrial Revolution to the end of 2<sup>nd</sup> World War II was a European century. In the 21<sup>st</sup> century Asia is to witness the emergence of three major powers – China, India and Japan and among China- India are seen as 'Rising Powers'.

The 'string of Pearls' Strategy of China describes the manifestation of China's rising of geopolitical influence through efforts to increase access to ports and airfields in Indian Ocean littoral countries, from middle east to southern China. These 'Pearls' were in the form of naval bases or electronic cavasdropping ports built by China in Myanmar, Bangladesh, Pakistan, Sri Lanka, Djibouti in mouth of Africa and focus laid on Maldives to project China in the overseas on the name of protect its oil shipments. India sees this as China's 'Encirclement Policy'<sup>10</sup>. This strategy as argued is seen as an attempt of Beijing to establish a serious of naval airports in the Indian Ocean, with a presumed aim of keeping the Indian Navy from consolidating its influence over its own strategies backyard. The 'pearls' are at Gwadar in Pakistan, the Hambantota Port in Sri Lanka, Chitagong in Bangladesh and Sittwe and Coco Island in Myanmar, Djibouti in Africa and in Maldives

As per Indian claims, the 'String of Pearls' strategy apart from the strategic ports also include electronic intelligence gathering facilities on

Islands in Bay of Bangal, funding to construction of a canal across the Kraisthnus in Thailand, a military agreement with Cambodia and building up of a forces in the South China Sea. These 'Pearls' are to help build strategic ties with several countries along the seashores from Middle East to the SCS (South China Sea).

Concentrating with littoral states in the Indian Ocean Region the China Pakistan Economic Corridor (CPEC), and Bangladesh, China, Indian Myanmar (BCIM) Economic Corridor and China – Myanmar Economic Corridor, which one launched the project will unleash a massive inflow of Chinese funds to Myanmar which can further weaken Indian influence over its eastern neighbor. This corridor though aimed to building basic infrastructure, enhancing telecommunication facilities and improving transport and agriculture in Myanmar. The corridor would connect The Chinese Province of Yunnan and Three important economic centre's in Myanmar. There are several challenges that can create problems, based on ethnic conflicts in different parts of Myanmar and anti- Chinese sentiment among a section of people. There is also fear of debt-trap in Myanmar, which has earlier cancelled construction of Chinese financed dam project<sup>11</sup>.

With these mega projects and heavily investment, China intends to mitigate the security concern in the MSR, ranging from territorial disputes in the South China Sea to transnational threat such as piracy, armed robbery and terrorism. These initiatives, which intends to deeper Chinese economic and maritime links with both South – East Asia and Indian Ocean Region countries, perceived as an attempt to reframe the regional ambition about China's growing military and naval presence amid a number of disputes both at land and sea called as a response to the 'String of Pearls' Strategy.

After establishment of its first overseas naval base at Djibouti in the Horn of Africa in 2017, China now wants to hosts marines infantry combat vehicles and helicopters in Pakistan, Cambodia, Vanuatu and other countries for additional military

bases to enhance its strategic footprint and emerge as power in the crucial Indo-Pacific region\*. The Djibouti base, where China is now constructing a 450 meter pier capable of berthing at four warships by end of 2019\* and probably follow naval bases at other locations, signaling a turning point in the expansion by PLA in the IOR and beyond.

### **China's Belt & Road Drive reaches Latin America**

China's expansion programme reaches Latin America under OBOR initiative, to build ports and other trade related facilities in creating ripples in Washington over Beijing's ambition in the region, as the American leaders since 19<sup>th</sup> century have seen as off-limits to other powers. China is hardly a new comer to the region but now its focus on countries in Central American such as Panama. Though, it is very small country, possessing just 4 mn people but its canal linking the Atlantic and Pacific Ocean's makes it one of the world's busiest trade arteries strategically important both to Washington and Beijing. American authorities expanded alarm at Beijing's ambitious in the US dominated region. Italy becomes the 1<sup>st</sup> G-7 nation to join China's OBOR initiative in spite of opposition from its own government<sup>12</sup>, inking an agreement worth of 2.5 bn contracts to lift the economy out of Third recession in a decade. Few EU leaders were also cautioned Italy for rushing in to arms of China. However, the US, Japan, Russia, India other governments fret that Beijing is gaining economic and strategic influence at their expense. India termed in the past while lashing out at the initiative, branding it a colonial enterprise that the China adopting new imperialism in the developing and less-developed countries.

### **India opposed China's OBOR Initiative**

Since the announcement of OBOR initiative in 2013 by Chinese President Xi Jinping in Central Asian countries, India cautiously observing China's purpose and motive behind the initiative, which involves 10 billion Yuan (\$1.66 bn) fund to build ports and other infrastructure to boost maritime connectivity with Southeast Asian and Indian Ocean littoral countries.

India has turned down an official invitation from China to attend even to the 2<sup>nd</sup> Belt and Road Forum (BRF) meet which held in month of April 2019. India has also boycotted the first meet held in Beijing in 2017, which attracted 19 heads of governments including Russia, President, Putin and Turkey's Recep Tayyip Erdogan, but while the US sent only a Joint Secretary official to the summit, the government of India resolutely maintained, as China's BRI undermines India sovereignty in the form of China Pakistan Economic corridor which passes through the Pakistan Occupied Kashmir (POK). Also even countries like the Japan, Britain, Germany and France took part, India stood firmly in its opposition to BRI underlining its strong reservations on the Chinese initiative. Hence, it was the first set back to China's attempts to project itself as a global leader via the BRI. Since then several other setbacks have compounded the problem for China.

India has opposed China's BRI on the grounds of not only sovereignty, there are other equally significant concerns it has highlighted such as China's constant attempts to block India's bid at UN to declare Jaish-e-Mohammed Chief Massoud Azher as a global terrorist (it has resolved now), inclusivity, financial and environmental sustainability and unilateral nature of BRI<sup>13</sup>. Bhutan, the immediate neighbour boycotted the meet in 2017 too, aligning itself with India which sees the BRI as undermining its sovereignty of the countries

A number of countries that, had joined the BRI bandwagon initially are now having second thoughts, and are echoing Indian views. Southeast Asian nations views like Malaysia & Myanmar have recently expressed concerns about China's "debt trap diplomacy" emanating out of BRI. From the Maldives and Sri Lanka to Malaysia, Pakistan, Thailand, doubts are being raised about the future viability of many of the Chinese projects.

Newly elected Malaysian President Mahathir Mohammed shocked China when he slayed the project, soon after he came to power. It is opinion of the President, the project contracted by the

previous government was unfair and imposed a major financial burden on the country, as the condition, laid on the project and the rate of interest on the investment is unviable and Malaysia wants to cut the project.

In response to Malaysian decision China have agreed to hugely lowered price for China railline under OBOR slashing 30% from the original cost to the 648 km rail link. Only after the announcement by China, Malaysia has reopened a closed Chinese rail construction project after slashing 30% from original agreement. It became a desperate to China to present a strong global infrastructure programme under OBOR initiative<sup>14</sup>.

The decision to slash the price might result in a chain effort with countries implementing BRI, like Pakistan also demanded price cut for its China Pakistan Economic Corridor (CPEC) project. India, one of the countries to skip the meet was the first to flag the negative aspects of the programme, which includes capacity and financing system that would push poor countries into debt trap.

China was subjected to continue allegation for its expansionist plan with neighbouring countries both on the borders (land) and in the water of Oceans its shares borders and some of the countries are openly alleging that China's land grabbing in poor countries, example, Maldives leader of opposition and former foreign minister openly accused China's land grabbing activities in the Island nation with the potential of developing them into a military outpost<sup>15</sup>. China has also undertaking similar activities across the region from Djibouti to Hambantota port in Sri Lanka and now potentially the Maldives gives cause of concerns in the region, hence Pentagon warned China its land grabbing in Maldives and in other poor and small nations.

### **Blocks to OBOR Initiative**

India's stand was vindicated as China's grandiose OBOR plans run into resistance from the member countries after experience and falling into debt trap, which affecting sovereignty and integrity of nations. Apart from of other, Sierra Leone has

become the latest country to scrap a Belt and Road project, cancelling a \$ 318 mn airport deal with China.

India was the first country to come out against the popular BRI initiative. India boycotted Xi's much – hyped BRI summit, held to garner up global support for his initiative which held in 2017 and also in the 2<sup>nd</sup> BRI summit held in 2019 India has boycotted and publicly termed BRI as a non-transparent, neocolonial enterprise aimed to ensnaring smaller/poor cash strapped states into debt trap to advanced China's geopolitical agenda by using geo-economic tools. The European Union openly echoed India's concerns by agreeing that, BRI did not include commitments to transparency social and environmental substantiality.

The USA also a long back cautioned the BRI initiative of Xi Jinping as dawn of new colonial era and further called the initiative as 'new – imperialist power, whose practice are reminiscent of European colonialism.

The International Monetary Fund has also warned that Chinese loans are subjected to lead into unsustainable debt burdens, which can be erode respective countries sovereignty, self-respect and integrity. The handover of Hambantota port on a 99 year lease to China was seen in Sri Lanka, as the head of a heavily indebted farmer giving away his daughter to the cruel money lender.

Beijing has leveraged big credit to gain even military pressure as its first military presence, as its overseas naval base at Djibouti illustrates as trapped in a debt trap crisis after borrowing billions of dollars, Djibouti was left with no choice but to lease land for the naval base to China for 20 mn USD as annual rent. China similarly seeking to employ its leverage over cash – strapped Pakistan to build naval base next to Gwadar Port.

In Maldives, China has acquired several islets in that heavily indebted Indian Ocean archipelago. China has paid only \$ 4 mn for the Feydhoo Finalhi, an Island that previously served as a police training centre. Similarly, Malaysian Prime Minister Mahathir Mohammad recently criticized



in a Beijing Grate Hall of the people that, China using its infrastructure projects to spread its influence and warned China against a new version of colonialism and the Prime Minister urged the international communities about China's hidden agenda as Beijing's use of geo-economic tools to reach geo-political objectives.

Against the above background of China, India's brave, principled stand against BRI initiative by Prime Minister Modi stand fully vindicated. India can prove itself as the intellectual leader that helped shine a spotlight on BRI financial and security risks and thereby moulded the international debate. The larger international push back against China's predatory practices is likely to intensify in the coming years, putting greater pressure on Chinese BRI/OBOR initiative.

The Chinese navy has grown the fastest in the world over the last 200 years, according to Admiral Sunil Lamba, that Chinese navy had been present in the Indian Ocean in 2008, having added a phenomenal 80 ships to its navy in the past five years. He further told that at any given time there are six to eight Chinese navy ships in the northern part of the Indian Ocean in the form of anti-piracy operations. China has also deployed submarines for this purpose<sup>16</sup>. But the Indo-Pacific panel of navy chief of India, Australia, Japan, France and the Indo-Pacific command Chiefs of the USA having after thorough discussion observed apprehended about the presence of Chinese military and its implications from security angle of Indian Ocean littoral countries.

Keeping in view of these, in the mind India under leadership PM Modi has virtually allocated an exclusive fund Rs. 5650 crores for the military infrastructure development plan spread over for 10 years for the strategically located Andaman & Nicobar archipelago, which will allow stationing of additional warships, aircrafts, drones, missile batteries and infantry soldiers, against the backdrop of China's rapidly footprint in the Indian Ocean Region. The 10 year infrastructure development plan for the Andaman & Nicobar Command (ANC), which is the country's only

Theatre Command with assets and manpower of army, navy, Air force and a coast guard under one operational agencies under agency of defence planning committee. The initial plan was pegged around Rs. 10,000 crores for the purchase of land that was already under acquisition by the ANC<sup>17</sup>.

Strategically located the-572 Islands A & N archipelago straddles major global trade routes. About 70,000 ships sail through Strait of Malacca annually\*. This strategic place will act as pivot to counter China's strategic moves in the Indian Ocean Region and it ensures security of sea lanes of converging towards Malacca Strait. It also secure India's 5.95 lakh sq km of Exclusive Economic Zone, a 30% of total in the region\*. The government of India, parallelly, having a comprehensive plan for force accretions' of the armed forces in the phase manner at ANC by 2027. Under it, the proposal for an increase in Army manpower and assets is pegged at about Rs. 5970 crores.

India and Indonesia joined hands to counter expansionist China recently. The two countries agreed to develop a naval port in 'Sabang', a strategic location on the tip of Sumatra Island and at the entrance of vital Malacca Straits. The move, which comes at the time when China is expanding its maritime footprint in the region, was most significant decision by two countries. The two countries have also agreed to step up defence and maritime front, largely due to fears of China's expansionism. The two countries are agreed to negotiate the issues of the maritime boundaries, based on the principals of International law including that of 1982 UNCLAS. China has encroached an Indonesian's exclusive economic zone with its nine-dash-line to extent that Indonesia has now renamed its sea as the 'Natuna Sea'<sup>18</sup>.

India may not be the economic power house of that level, but has plans are underway to counter China's expanding strategic footprint in Indian Ocean Region (IOR) with Chinese warships and submarines making regular forays into the region. The government of India has given approvals for

contribution of 56 new warships and six submarines for the Indian Navy. The Indian navy, currently has 140 warships and 220 aircrafts, already 32 warships are under constructions in domestic shipyards at a total cost of Rs. 1.26 lakh crores to replace its aging fleet and plug operational lapses<sup>19</sup>.

Since the annual defence budget in India has not registered any tangible hike for the last five years, to ensure the navy comes anyway close to its original target of a 212 warships and 458 aircraft force by 2027. But the admiral Sunil Lamba expressed confidence ahead of navy day recently, that India is good enough to tackle an aggressive and expansionist China in India's own strategic backyard. The navy chief further added that, the entire world's attention is focused on IOR where our navy is increasingly seen as a net security provider. Our maritime environment is free from all forms of threats (Traditional & non-traditional)

The US President Trump acknowledged threat from China's OBOR project, which over five years has bankrolled mega projects across Asia, Africa and Europe to expand its sphere of influence through various corridors, such as OBOR/BRI, CPEC, BCIM. The US president wants to counter China's growing geo-political era and visualized threat perception from China, hence the US President has signed a bill that created new foreign aid agency, called the US International Development Finance Corporation and gave it authority to provide \$ 60 billion loans, loan guarantees and insurance to companies those willing to do business in developing nations. The move of the US President was significant reversal from his earlier decisions, desire to block Beijing's plan for economic technological and political dominance.

China's trillion – dollar OBOR initiative runs into debt jam- Malaysia, Pakistan, Maldives, Sri Lanka and Djibouti are worried about Chinese investment/ loans under OBOR in the form dollar term's, but in reality Chinese are lending in terms of tractor, shipments of coal, engineering services and thing like that and they ask for repayment

through hard currency with heavy rate of interests<sup>20</sup>. Therefore, the IMF chief has raised concerns about debt problems for these countries as these countries are lack of means to pay back to the Asian giant.

Keeping in view of the situation Chinese President Xi Jinping has made an announcement at end of the three day BRF recently in China in April 2019, that Beijing is modifying the structure of the infrastructure re-building programme under OBOR, Xi further declared that, BRI would adopt market- driven practices, as the China has been criticized for allowing companies to take away 90% by the business and dictating its own financing terms to borrowers.

### Conclusion

India is planning its strategy under Prime Minister Modi how to contain China's expansionist inroads in Indian Ocean and Indo- Pacific through OBOR initiative, with a massive investment funding of one trillion dollars in more than 100 countries of Asia, African, Europe and Middle East countries. The government of India has allocated initially Rs. 10,000 crores for defence department and Rs. 5000 crores has been earmarked for integrated military infrastructure development plan for the strategically located Andaman Nicobar Archipelago which is nearer to the Malacca Strait. Further, the government of India floated Indian Development Assistance Scheme (IDEAS) with a aim to counter China's OBOR initiative and declared in Indian parliament, recently as the world's six largest economy, the government would like to provide more funds for the scheme (IDEAS) to enable India to provide concessional financing for development projects in the immediate and neighbourhood countries Mindful of Indian position in the world, size of the economy and status looking at alternative development models which includes private sector equity, multilateral financing , contributions from corporate, non- residents, etc.

Besides, India and Indonesia has agreed to develop a naval port at 'Sabang' site, a strategically located tip of Sumatra Island and at the entrance of the

vital Malacca Strait, may also useful for counter China, as the move comes at a time when china is expanding its maritime footprints in the region. It is to be re - member that, China's huge oil imports from gulf countries and its excesses capacity exporting to African, West Asian and European countries uses the vital Malacca Strait. Further, to contain China's expansion and assertiveness India along with the US, Japan and Australia are consistently voicing to-gether against the China in the Indian Ocean under 'Quad' and conducting 'Malabar' naval exercises in the Indo-Pacific Oceans to show naval power.

It is now the Indian armed forces will need to respond to China's rapidly expanding military might, especially its growing naval footprint in the IOR, within their budget limitations other constraints, as per the opinion of the Admiral Singh, India has to watch carefully after looking Beijing released its white paper recently, through China was striving to promote security stability along the India – China border. To face or to over come the threat from China, India requires long-term fiscal support to build naval base and navy, that is only the way out left for us.

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# PAPERS TO CARDS: ARE USAGE AND CONFIDENCE MOVING TOGETHER IN PAYMENTS?

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## ABSTRACT

*Demonetization was introduced in India in November 2018 to encourage digital currency, it may be called papers to cards. An attempt is made in this paper to find the citizens' perceptions towards usage and confidence moving together could make payment, for this purpose 91 sample customers are identified in and around in Hyderabad. It concludes that customers are preferring card-based payment than that of cash payment.*

**Keywords :** Cards, Online Transactions, Paper Money, Confidence, Usage, Cashless

## Introduction

Money is to transact, and to transact is basic for survival in the contract-driven social setting. These transactions have been done through the exchange of physical money for a long time. But recently, there have been other options emerging such as cards and other online transacting options. Though the advent of technology has become inevitable, most of the population of India still relies on using physical cash for their transactions. India is on the move from a cash-driven economy to a cashless economy; which means an uprise in the deployment and efficiency of the payments infrastructure that today encompasses private firms such as PayTM, PayPal, PhonePe, and regulated banking enterprises such as Immediate Payment Services (IMPS), National Electronic Funds Transfer (NEFT), and Real Time Gross Settlement (RTGS). Navigating through these multiple options could often confuse an average user as to what is the most efficient way to transact; typically leading them to fall back into the cash-driven mode.

Cashless economy offers more transparency and traceability of movement of money, purely as a measure of value, and hence makes way for a clean world in the accounting sense. Intuitively, the cashless economy appeals because there are advantages such as ease of making and receiving payments, traceability of accounts, and more data to append to transactions thus offering a shot at being more prudent. Also, the governments around the world are working towards improving the

authentication mechanisms, laying down the protocols and guidelines that the technology, both hardware and software, must adhere to, and offering guidelines on messaging and communication that should happen around every transaction. Given the flux of the matter, from an end-user perspective, two factors appear to govern reaching a state of utopia in cashless transactions: first, accepting a payment mechanism; and second, trusting the safety and anonymity of the transaction. This paper is an effort in exploring these two aspects.

## Literature Review

In the wake of demonetization, Kaur (2017) observed that both the volume and the total amount transacted through NEFT and RTGS were on an upward trend. But the author also cautioned that such a trend need not necessarily point towards a cashless economy, but rather indicates that as an economy we prefer less-cash. One could argue that such an observation is hinting at an obvious milestone in the journey, but the cautious tone was to suggest reversibility, which means that if the payments setup is not managed appropriately, that India could get back very soon to being a cash-based economy.

Mukhopadhyay (2016) observed the global trends at around the same time to notice if there were consistent movements across different countries. He pointed out that moving towards cashless economy, for India especially, had two direct benefits namely lower maintenance cost of the



payments set up over a long term, and clearly documented financial transactions leading to higher tax collections, which seems to have been confirmed by the recent budget that noted an increase in tax payers by approximately eight-million. Two other indirect benefits that would be bestowed on cashless economies were the achievability of financial inclusion and reduction in leakages, both of which we are yet to realize as a nation. Most importantly, with regard to the nature of transactions, he noticed that the number of withdrawals at ATMs far exceeded that of mobile-based or online-transactions.

Ghosh (2017) pointed out a problem at the grassroot level. According to him, the technological awareness, willingness to adopt technology, and the size of typical transaction are a hindrance for payments infrastructure to penetrate into rural masses. That these markets are highly unorganized also makes it operationally difficult for financial organizations to reach out and offer services. He noticed more critically that there were a section of people, such as immigrant labour, whose livelihood depended on daily wages received in cash; and that going cashless can adversely impact their lives. He thus called out for initiatives that are more inclusive of diverse groups based on the dependence of their livelihood on cash. In a similar vein, Sundar (2016) indicated that though cashless economy seems to offer ease and transparency for transacting, it seems to create a distance in social relationships. Such an idea seems to stem legitimately from within the view that bargaining too is a social transaction.

Masiero (2017) delved deeper into the dynamics of how Indian payments setup is shaping; especially, the focus was on creating a digital identity through Aadhar, and then hoping to advance the cause of financial inclusion. Through an information poverty theory perspective, he observed that there are several design-reality gaps in how digital identity programs are implemented thereby causing difficulty for the last-mile connectivity and integration. Essentially, lack of understanding of financial technologies and payments infrastructure seems to minimize integration into a cashless system, although it is a

given that certain section of population would create a friction just to evade getting into tax net.

### **Objectives, Sample and Methodology**

These reviews on achieving cashless economy appear mixed. And all of them enlighten from a perspective that is more a bird's eye view of the economic system rather than the ground truth. This paper attempts to get the citizen perspective on the willingness to use physical cash compared to cards, and their perceptions on how secure they believe cashless transactions are. To achieve this, a random sample of 91 cash and card users is approached from Hyderabad, noting down certain aspects of their behavior in using cash and cards, and then understanding their perceptions through the survey. Most questions in the survey were closed-ended with specific response options. Two open-ended questions too were asked to capture any qualitative input that the participants may offer. Suitable statistical tests such as Chi-square and ANOVA were performed using SPSS.

### **Findings**

Around 90% of the sample indicated that they do not feel secure carrying cash in excess of INR 10000. Also, around 95% indicated that the frequency of cash withdrawal from ATM is either weekly or greater. Around 70% indicated that (i) they reduced cash withdrawal from ATM after the charges for such withdrawals were increased by the banks, (ii) they feel that cashless transactions are safe, (iii) that they are comfortable using the technology related to transacting online, and (iv) that the government should do more to setup infrastructure to promote cashless transactions. These behaviours indicate the characteristics of the sample, that they are from an urban setting, and that there is a tendency of moving away from cash either because of not feeling secure carrying cash, or because of additional charges on carrying cash, or because of non-availability and non-operational ATMs.

However, at the same time, around 60% of the sample indicated that they use cash for all transactions, primarily those that are of small value. Of these, 35% indicate that cash is their preferred mode of transaction, even though there

are other ways of transacting available. Another 11% indicated that they prefer cash-based transactions because of discounts available through cash-mode that are not available in others. Around 85% of the sample indicated that the other preferred mode of transaction, apart from cash, is mobile-based transactions, primarily because of the convenience it offers.

### Hypotheses

The following hypotheses were tested:

1. Whether the trust on payment mechanism varies by device used for transacting
2. Whether safety perception of cashless transaction varies by gender
3. Whether comfort with technology varies by profession
4. What additionally could be the reasons that promote use of cash for transacting, and what reasons push participants away from cash transactions

*H01: Device used for Transaction (such as Desktop, Laptop, Tablet, and Mobile) and Trust on Payment Mechanism are Independent.*

*H02: Safety perception does not vary by Gender.*

*H03: Comfort with technology varies by Profession.*

**Table 1 : Gender wise - perceptions of the respondents**

GENDER	Agree	Disagree	Neutral	Strongly Agree	Grand Total
Female	6	2	12	4	24
Male	31	2	7	27	67
Grand Total	37	4	19	31	91

For the above distribution of responses, Chi-square is 19.252 with a significance value of less than 0.005. This indicates that the null hypothesis can

**Table 2 : Results of Chi-Square**

Payment Mechanism	Chi-Square	Significance
Cards	05.18	0.933
Banks	10.35	0.757
PayPal	05.29	0.991
PayTM	12.39	0.616
PhonePe	13.78	0.577

Since the significance values are all above the critical value of 0.05, the null hypotheses may not be rejected. This leads us to believe that the trust on payment mechanism does not vary by the device used for transacting.

be safely rejected. It implies that among the participants, significantly more males opined that cashless transactions were safe.

**Table 3 : Profession wise comforts by using Cards**

PROFESSION	High	Low	Medium	Very Hghi	Grand Total
Business		1	2		3
Government	6		8	6	20
Private Sec.	6	1	9	3	19
Service Sec.		1	3		4
Students.	16	2	23	4	45
Grand Total	28	5	45	13	91

### Reasons for using cash



## Conclusions

### Reasons for moving away from cash



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# A STUDY ON EMPLOYEE MORALE

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## ABSTRACT

*Employee morale is defined by the employee's outlook, optimism, self concept, and assured belief in themselves and their organization, its mission goals, defined path, daily decisions, and employee appreciation. Faith in self and faith in their organization are both important factors in positive employee morale. A feeling, emotions, sentiments, attitudes and motives all these combine and lead to a particular type of behavior on the part of the individual or his group and this is what is referred to as employee morale. . Employee morale is one of the predictors of organizational efficiency and effectiveness.*

**Key Words:** Employee morale, employee appreciation, organization, efficiency and effectiveness

## INTRODUCTION

Organizational effectiveness considerably depends on the morale of its work force. It is a state of healthy balance in the organization in which people make their respective contributions to achieve their set goals, maintain their sense of worth besides developing their abilities, knowledge and skills. Every organization should have personnel policies in order to accomplish the objectives of the personnel as well as the organization. Periodic updating of personnel policy it is found that to attain goals, factors like men, money, materials and machines are involved, out of which man power is the most important. The relationship between the employer and employee is an integral part for success of any organization.

Morale is purely emotional. It is an attitude of an employee towards his job, his superior and his organization. This may range from very high to low it is not static thing but it change depending on working condition, superiors, fellow workers, pay and so on. When a particular employee has a favorable, attitude towards his work, he is said to have a high morale. In organization context, we usually talk of group morale as each person has an influence over the other's morale. Employee Morale plays vital role in the origination success. High Morale leads to success and low Morale brings to defeat in its wake. The success of failure of the industry much depends up on the Morale of

its employees. A satisfied, happy, efficient, dedicated and hard working employee is the biggest asset of any organization

## NEED AND IMPORTANCE OF STUDY

Employee morale is the relationship that a particular employee or a group of employees have with their work and the organization they work for. High employee morale means that employees are happy, and this is reflective in the kind of work they produce. On the other hand, low employee morale results in less productivity and pessimism among employees. It is important for every organization to continually keep employee morale high. It is a concept that describes the level of favorable or unfavorable attitude of employees collectively to all aspects of their work the job, the company, their tasks, working conditions, fellow workers, Superiors

## OBJECTIVES OF THE STUDY

1. To find out relationship between the variables such as Morale, Motivational level, Organization Citizenship Behavior conscientiousness ,Employee Commitment, Job performance, Referral Behavior and fair rewards which taken for the study.
2. To find the gender impact on the Morale in the organization and examine the importance of employee morale.



3. To assess the impact of fair rewards and organization citizenship behavior on morale of the working employees.

### STATEMENT OF THE PROBLEM

The present study explores the importance of employee morale in National Small Industries Corporation, Hyderabad

### RESEARCH METHODOLOGY METHODS OF SAMPLING

The basic idea of sampling is that by selecting some the elements in a population, we may draw conclusion about the entire population. For this we select descript study

### SAMPLE DESIGN

Sample is a process of obtaining information about the entire population of interest so that by studying the sample we may fairly generalize our result back to the population from which they were chosen. Sample random sampling technique was used for this study at National Small Industries Corporation.

### EMPLOYEE COMMITMENT AND MORALE

Building positive employee morale is not difficult, but it takes desire, commitment, and attention on the part of management and the organization treat employees fairly and consistently, treat employees with respect, treat employees as if they matter as your organization's most significant resources, provide regular employee recognition, provide feedback and coaching, and offer employees the opportunity to develop their skills and their careers

### RELATIONSHIP BETWEEN JOB PERFORMANCE AND MORALE

1. **Give them a reason to believe:** Potential candidates need to understand and share in the vision of what you are doing as an organization. The company's true purpose is Improving Lives as every team member is aware.
2. **Show you care:** Recognize every single employee's birthday. Send gifts for new babies and weddings.

3. **Recognize the good:** when someone is doing something awesome, tell them.

Recognize the individuals on your team who receive good feedback from your clients.

Negative feedback is also passed on, but privately, and proper corrections are made.

4. **Promote from within:** skills and talents the different members of your crew possess and find ways to develop those skills for future use in your business. Help invest in the training they need to advance as your company grows.

5. **Contextual performances have been further suggested to have two facets**

Interpersonal facilitation and job dedication, interpersonal facilitation includes cooperative, considerate, and helpful acts that assist co-workers' performance. On the other hand, job dedication, includes self-disciplined, motivated acts such as working hard, taking initiative, and following rules to support organizational objectives.

6. **Work engagements:** Work engagement has become a well-known construct to both researchers and practitioners. An emerging body of research is beginning to converge around a common conceptualization of work engagement as connoting high levels of personal investment in the work tasks performed on a job.

### SIGNIFICANCES OF EMPLOYEE MORALE IN THE ORGANIZATION

1. An explanation to employees on why a manager is no longer with the company and then encourages the staff to move on with the manager replacement.
2. Morale can be negatively impacted if employees feel that the company offers no career path with advancement and if the company does not offer some kind of rewards for employee's loyalty and dedications.

3. To maintain morale communication line need to remain open and important information needs to be delivered in a timely fashion. For example: if A small number layoffs are being planned then it is important to communicate the magnitude of the layoffs to employees so that rumors do not get spread that could shatter morale
4. Lying off employees usually have a negative impact on morale but allowing employees that are not scheduled to be laid off to believe that they could damage morale even future.

### **BENEFITS AND LIMITATION OF EMPLOYEE MORALE**

Good employee morale generally means that workers are happy to come to work each day comfortable in the nature of their work and with their co-workers and optimistic about their production.

#### **Reduced absenteeism**

Absent employees cost organization thousands of dollars in missed production or lower revenue employee who miss less work are less likely to fall behind and easily get over whelmed in carrying out their roles. They also experiences more positive relationship with colleagues which can help in minimize stress.

#### **Collaboration**

In one on one interaction and in work term, positive morale is likely to increase the level of collaboration among workers, if you have a high morale environment, worker likely greater comfort with other and a willingness to work together towards goals.

#### **Esteem and satisfaction**

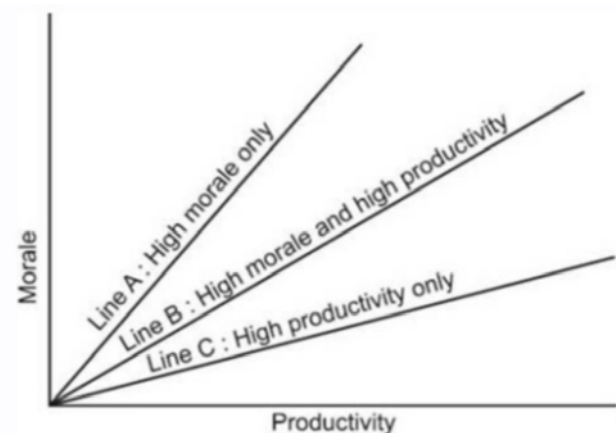
With high morale and greater levels of production, manager and employees tend to have high self esteem. When you produce good results and have them recognized you tend to want to repeat the experiences. Employees generally prefer an organization that enhance feeling of esteem and provide a meaningful, satisfactory work experiences.

### **Better Production**

When employees feel positive and enjoy the work environment, their production is normally higher. For managers, this helps in achieving departmental and organizational objectives. As an employee, higher levels of production can often lead to increased compensation and promotion opportunities.

### **EFFECTS OF EMPLOYEE MORALE**

Manager need to spend time communicating their vision to ensure it understood, effective manger communicated widely and allow their message to be discussed in a person or at staff meeting. To ensure commitment and increased morale in economic uncertainty , manager need to energizer their employee by acting enthusiastically and optimistically about the future this heightens levels of motivation and helps employee recognize the importance of their work while encouraging a goal oriented, ambitions, determination working style.



### **Relationship between morale and productivity**

The first situation occurs when the individual is satisfied from the job and prevailing environment. He will try to achieve his standards of performance which will lead to higher productivity. In the second situation (low productivity and high morale) the employee may be satisfied from his work and situations, prevailing and showing high morale. Lack of proper teaching of the employee, lack of administrative skill of supervisor, defective materials, out - dated technology may lead to low productivity in spite of high morale. In the third situation, management may use strict supervision, prescribe punishments for low productivity and

use better technology for raising productivity, in spite of low morale. The fourth situation occurs where factors obtained in combination of high

productivity and high morale are lacking. There is a complexity of relationship between morale and productivity.

### Data Analysis and Interpretation

**TABLE - I : Effects of employee morale**

Sl.No.	Reliability Statistics	Cronbach's Alpha	No. of Sample	Interpretation
1	Employee Morale	.872	16	The cronbach's alpha value is more than 60% i.e; 0.872% for employee morale it shows the validity of scale
2	Employee Commitment	.825	10	The cronbach's alpha value is more than 60% i.e., 82.5% for employee morale it shows the validity of scale
3	Job Performance	.932	15	The cronbach's alpha value is more than 60% i.e; 93.2% for employee morale it shows the validity of scale
4	Motivational Level	.670	11	The cronbach's alpha value is more than 60% i.e; 67.0% for employee morale it shows the validity of scale
5	Organization Citizenship Behaviors	.831	14	The cronbach's alpha value is more than 60% i.e; 83.1% for employee morale it shows the validity of scale
6	Referral Behavior	.835	12	The cronbach's alpha value is more than 60% i.e; 83.5% for employee morale it shows the validity of scale
7	Fair Rewards	.933	10	The cronbach's alpha value is more than 60% i.e; 93.3% for employee morale it shows the validity of scale

Source : Primary data

**TABLE - II : Correction for effective of employee morale**

		Morale	Employee Commitment	Job performance	Motivational level	organizational citizenship behavior	Referral behavior	Fair rewards
Morale	Pearson Correlation	1	.841**	.763**	.347**	.685**	.632**	.643**
	Sig. (2-tailed)		.000	.000	.001	.000	.000	.000
	N	88	88	88	88	88	88	88
Employee commitment	Pearson Correlation	.841**	1	.725**	.363**	.549**	.604**	.531**
	Sig. (2-tailed)	.000		.000	.001	.000	.000	.000
	N	88	88	88	88	88	88	88
Job performance	Pearson Correlation	.763**	.725**	1	.483**	.694**	.690**	.393**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	88	88	88	88	88	88	88

Motivational Level	Pearson Correlation	.347**	.363**	.483**	1	.350**	.591**	.250*
	Sig. (2-tailed)	.001	.001	.000		.001	.000	.019
	N	88	88	88	88	88	88	88
Organizational Citizenship Behavior	Pearson Correlation	.685**	.549**	.694**	.350**	1	.684**	.474**
	Sig. (2-tailed)	.000	.000	.000	.001		.000	.000
	N	88	88	88	88	88	88	88
Referral Behavior	Pearson Correlation	.632**	.604**	.690**	.591**	.684**	1	.426**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	88	88	88	88	88	88	88
Fair rewards.	Pearson Correlation	.643**	.531**	.393**	.250*	.474**	.426**	1
	Sig. (2-tailed)	.000	.000	.019	.000	.000	.000	
	N	88	88	88	88	88	88	88
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

**TABLE-III**  
**Gender wise effects of employee morale**

	Frequency	Percent	Valid Percent	Cumulative Percent
Female	33	37.5	37.5	37.5
Valid Male	55	62.5	62.5	100.0
Total	88	100.0	100.0	

**Source : Primary data**

**TABLE - IV**  
**Independent Samples Test**

Independent Samples Test										
	Levene's Test for Equality of Variances			t-test for Equality of Means						
	F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
								Lower	Upper	
Motivational	Equal variance	12.03	.00	1.43						4.75
	assumed	2	1	1	86	.156	1.988	1.389	-.774	0
	Equal variance			1.61	85.98					4.44
	assumed			0	3	.111	1.988	1.235	-.467	3

**Shows that 33 female an 55 male employees are selected for random study to find out the effect of employee morale**



**TABLE - V : Multiple Regreation**

<b>Coefficients<sup>a</sup></b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	7.155	2.609		2.742	.008
	Employee Commitment	.843	.134	.470	6.316	.000
	Job performance	.278	.097	.240	2.860	.005
	Motivational Level	-.161	.165	-.058	-.980	.330
	Organization Citizenship Behavior conscientiousness	.330	.144	.169	2.290	.025
	Referral behavior	.008	.222	.003	.035	.972
	Fair rewards	.342	.085	.232	4.037	.000
a. Dependent Variable: Motivational						

Multiple regression analysis is performed to check relation between dependent and independent variable.

The independent variables considered above are employee commitment, job performances, motivational level, organization citizenship behavior conscientiousness, referral behavior, fair rewards.

The dependent variable consider is employee morale

The above depicts that fair rewards, employee commitment, job performance and organization citizenship behavior effect the morale of the employees at National Small Industries Corporation.

## FINDINGS

- 1 It is clear that from table 1, 2, 3 the reliability analysis that all the cronbach's alpha values are above 60%.It indicates that all the constructs are valid and contribute to the project.
- 2 Correlation test is conducted to know the relation between the variables. Employee morale, employee commitment, job performances, organization citizenship

behavior, motivational level, referral behavior are correlated to each other.

- 3 The significant level is less than 5% which signifies the relationship between the variables.
- 4 The number of female respondents contacted for the feedback are 37.5%
- 5 t- Test was used to show the impact and the table number signifies that there is no difference of gender impact on employee morale. And Signifies values is greater than 5% i.e. 0.156% that is 15%
- 6 In Regression analysis independent variables are employee morale and dependent variables are employee commitment, job performances, organization citizenship behavior, motivational level, referral behavior, fair rewards.

## CONCLUSION

It is observed that all the variables are constants and stable in nature. As the correlation signifies positive result, it can be concluded that all the factors taken for the present study are correlated. From the T – test it reveals facts that both male and female respondents have the equal

enthusiasms and commitment. Employee morale is equally rated in this behavior to achieve their goals. The study also recorded that there is impact of both dependent variables like employee commitment, job performances, organization citizenship behavior referral behavior and fair rewards on independent employee morale.

Employee morale plays an important role in the organization. If employee morale is high then they will be committed to work. Job performances will also be increased. If employee motivational level is high then productivity will also be increased. This helps the organization retain employees and reduces employee turnover.

### RECOMMENDATION

Employee morale can be improved with increases in fair rewards. By motivating employees with appreciation and feedback, job performances can be increases. Once employee morale increases automatically and productivity organizations citizenship behavior also increases.

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# REVENUE RECOGNITION AND AMORTIZATION OF INTANGIBLE ASSETS IN MEDIA AND ENTERTAINMENT INDUSTRY

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## ABSTRACT

*The amount of amortization differs due to the different organization policies and life of the assets. There is no uniform policy for revenue recognition and amortization of intangible assets in Media and Entertainment industry. In this background, an attempt has been made to find out the relationship between in amortization and its profits. For this purpose, secondary data has been collected from SUN TV and NDTV and presented with illustrated amortization policy. This paper concludes by stating that the profits will effect if the firms follow different amortization policies.*

### 1) Introduction

The media and entertainment industry in India consists of many different segments under its fold such as television, print, and films. It also includes smaller segments like radio, music, animation, gaming, visual effects (VFX) and Internet advertising. Entertainment industry in India had massively grown in last two decades making it one of the fastest growing industries in India.

#### Television:

Television is one of the major mass media of India and is a huge industry and has thousands of programs in all the states of India. Today India boasts of being the second largest television market in the world. Approximately half of the Indian households own a television.

#### Print Industry:

Indian print industry is growing strong and is expected to grow similarly while the global print industry is moving towards digitalization and showing a negative growth rate year on year. Print industry in India is the world's second largest with over 90 million copies in circulation daily after China with 130 million copies in circulation daily. Most newspapers have an online presence and are growing view counts on their portals.

#### Film Industry:

Films are the most important form of entertainment in India. Film industry in India is among the largest in the world in terms of films produced.

### 2) REVENUES IN THE INDUSTRY:

The industry has the following types of revenues

**Operating revenues** are those that come in to a business from the company's main or core business activities. This is the area through which a company earns most of its income. An entertainment and Media company generates its revenues by advertisement in its channel, revenue from sale of movie distribution rights, subscriptions billed to cable operators and Direct to Home (DTH) subscribers and Income from sale of Broadcast slots

**Non-operating revenue or other income** includes revenues earned from a company's outside of its normal operations. These are the revenues that are associated with secondary operations of a business entity – not with main, central or core activities. These revenues are treated as other incomes and not to be included in operating revenues. Few examples of non operating revenues are interest revenue, dividend revenue and rental revenue etc;

**Intangible Assets:**

An intangible asset is an asset that is not physical in nature. Unlike physical assets such as machinery and buildings, usually intangible assets are very difficult to evaluate.

The intangible assets include patents, copyrights, trademarks, software, Corporate Brand, Goodwill, franchises and Licenses. The intangible assets used in media and entertainment industry are satellite rights, broadcasting licenses, franchises, software and patents etc;

**Amortization:**

Amortization means diminishing in the value of intangible asset. Since there will be no wear and tear on intangible assets as assets lacks physical substance; instead of depreciation, amortization is used.

**Method of amortization of intangible assets:**

Intangible assets are required to be amortized over the useful life. Deciding the method of amortization is a matter of judgment and is determined based on facts and other relevant factors. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, diminishing balance method and the unit of production method.

At first, the useful life of an intangible must be assessed as finite or indefinite. The accounting method for amortization depends on such useful life assessed. If useful life is assessed as finite, such useful life is determined based on

management's estimate. If intangible assets are assessed to have an indefinite useful life (that is no foreseeable limit), such intangible assets would not be amortized. However, an entity is required to test an intangible asset with an indefinite useful life for impairment annually and whenever there is an indication that the intangible asset may be impaired, it should start amortization of such intangible assets.

**3) METHODOLOGY AND OBJECTIVES OF THE PAPER**

This paper has been prepared based on secondary data and has been collected from SUN TV and NDTV financial reports and supplemented with other publications. It is descriptive study. The period of the study is from March 2016 to March 2017. And different amortization policies have been applied to find out the effect on Profits. The detailed objectives are as follows:

- To study the revenue recognition and amortization policies of SUN TV and NDTV.
- To analyze the revenue recognition and amortization policies on intangible assets and its reflect on its problem.

**4) A STUDY OF REVENUE RECOGNITION POLICIES AND AMORTIZATION POLICIES OF SUNTV NETWORK LIMITED AND NEW DELHI TELEVISION LIMITED:**

For reference, profit and loss statement and revenue recognition policies of two entertainment industry majors SUN TV NETWORK Limited and New Delhi Television Limited are illustrated

**TABLE 1: SUN TV NETWORK LIMITED INCOME AND EXPENSES 2016 & 2017**  
(Rs in crores)

Particulars	Year Ended March 31, 2017	Year Ended March 31, 2016
<b>Income</b>		
Revenue from Operations	2,558.25	2,395.21
Other Income	145.55	107.54
<b>Total Income (I)</b>	<b>2,703.80</b>	<b>2,502.75</b>



<b>Expenses</b>		
Operating expenses	301.99	266.54
Employee benefits expenses	256.27	235.99
Other expenses	235.08	189.31
Selling expenses	27.94	7.43
Depreciation and amortization expenses	391.14	485.02
Finance costs	1.03	2.19
<b>Total Expense (II)</b>	<b>1,213.45</b>	<b>1,186.48</b>
<b>Profit before exceptional item and tax (I) - (II)</b>	<b>1,490.35</b>	<b>1,316.27</b>

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Depreciation of Property, Plant and Equipment	53.50	72.33
Depreciation on Investment Properties	0.91	0.94
Amortization of intangible assets	336.73	411.75
	<b>391.14</b>	<b>485.02</b>

(Source: [http://www.suntv.in/pdf/Finance/Annual\\_Report\\_for\\_the\\_Financial\\_Year\\_2017.pdf](http://www.suntv.in/pdf/Finance/Annual_Report_for_the_Financial_Year_2017.pdf))

#### Revenue recognition policy:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties collected on behalf of the government. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements as it has pricing latitude and is also exposed to credit risks. Advertising income and income from sales of broadcast slots are recognized when the related commercial or program is telecast.

International subscription income represents income from the export of program software content, and is recognized as and when the services are rendered in accordance with the terms of agreement with customers.

Subscription income represents subscription fees billed to cable operators and Direct to Home ('DTH') service providers towards pay-channels operated by the Company, and are recognized in the period during which the service is provided.

Subscription fees billed to cable operators are determined based on number of subscription points to which the service is provided based on relevant agreements with such cable operators (along with management's best estimates of such subscription points wherever applicable), at contractually agreed rates with the Company's authorized distributor. Subscription income from DTH customers is recognized as and when services are rendered to the customer in accordance with the terms of agreements entered into with the service providers.

Revenues from sale of movie distribution rights are recognized in accordance with the terms of agreements with customers. Income from content trading represent revenue earned from mobile service providers and DTH service providers through exploitation of content owned by the Company. Income is recognized as per the terms of contract with the respective service providers and based on the services being rendered to the service provider.

Income from Indian Premier League represents following:

Income from franchisee rights is recognized when the rights to receive the payments is established as per the terms of the agreement entered with The Board of Control for Cricket in India (“BCCI”). Revenue is recognized as per the information provided by BCCI or as per Management’s estimate in case the information is not received. The revenue is allocated on a pro-rata basis to number of matches played during the year as against the total number of matches for the season.

Income from sponsorship fees is recognized on completion of terms of the sponsorship agreement. Income from sale of tickets is recognized on the dates of the respective matches. The Company reports revenues net of discounts offered on sale of tickets. Prize money is recognized when right to receive payment is established. Revenues from barter transactions, and the related costs, are recorded at fair values of the services received or if the same cannot be measured reliably, then the

fair value of the services rendered, as estimated by management.

For all debt instruments, interest income is recorded using the effective interest rate (EIR). Finance income is included in other income in the statement of profit and loss. Dividend income is recognized when the right to receive payment is established, which is generally when shareholders of the investee entity approve the dividend. Rental income arising from operating leases on investment properties is accounted for based on the terms of the agreements and is included in other income in the statement of profit or loss. Export incentives are recognized on an amount of the benefits under the respective schemes. Revenues recognized in excess of billings are disclosed as “Unbilled Revenue” under other current financial assets. Billings in excess of revenue recognized are disclosed as “Deferred Revenues” under other current liabilities.

**TABLE 2 :NEW DELHI TELEVISION LIMITED INCOME AND EXPENSES 2016 & 2017**  
(Rs . in Millions)

	Year ended March 31, 2017	Year ended March 31, 2016
<b>Income</b>		
Revenue from operations	3,817.27	4,286.98
Other income	63.42	54.53
<b>Total revenue (I)</b>	<b>3,880.69</b>	<b>4,341.51</b>
<b>Expenses</b>		
Production expenses	842.79	826.01
Employee benefits expense	1,488.27	1,446.29
Operations and administration expenses	956.59	980.58
Marketing, distribution and promotion expenses	732.62	949.79
Depreciation and amortisation expenses	160.49	184.46
Finance costs	152.46	164.97
<b>Total (II)</b>	<b>4,333.22</b>	<b>4,552.10</b>
<b>Loss before exceptional items and tax (I) – (II)</b>	<b>(452.53)</b>	<b>(210.59)</b>
	Year ended March 31, 2017	Year ended March 31, 2016
Depreciation of tangible assets	155.11	177.29
Amortisation of intangible assets	5.38	7.17
	<b>160.49</b>	<b>184.46</b>

(Source: <https://www.ndtv.com/convergence/ndtv/corporatepage/images/AnnualReport2016-17.pdf>)

**Revenue recognition policy:**

Advertisement revenue from broadcasting is recognized when the advertisements are displayed. Revenue from events and shared services are recognized as the services are provided. Subscription revenue from direct-to-home satellite operators and other distributors for the right to distribute the channels is recognized when the service has been provided as per the terms of the contract. Revenues from production arrangements are recognized when the contract period begins and the programming is available for telecast pursuant to the terms of the agreement. Typically the milestone is reached when the finished product has been delivered or made available to and accepted by the customer. Revenue from equipment given out on hire is accounted for on an accrual basis over the period of use of the equipment. Revenue is recognized when persuasive evidence of an arrangement exists, the considerations is fixed or determinable, and it is reasonable to expect ultimate collections.

The above illustration indicates that there is no change in the revenue recognition policies of the two companies. However there is change in the amortization policies of the two companies.

**SUN TV NETWORK LIMITED:**

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or

method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statement of profit and loss unless such expenditure forms part of carrying value of another asset. Computer software Costs incurred towards purchase of computer software are depreciated using the straight-line method over a period based on management's estimate of useful lives of such software being **3 years, or over the license period of the software, whichever is shorter.**

Film and program broadcasting rights ('Satellite Rights') Acquired Satellite Rights for the broadcast of feature films and other long-form programming such as multi episode television serials are initially stated at cost. Future revenues from use of these Satellite Rights cannot be estimated with any reasonable accuracy as these are susceptible to a variety of factors, such as the level of market acceptance of television products, programming viewership, advertising rates etc., and accordingly **cost related to film is fully expensed on the date of first telecast of the film and the cost related to program broadcasting rights / multi episodes series are amortized based on the telecasted episodes.**

Film production costs, distribution and related rights. The cost of production / acquisition of all the rights related to each movie are amortized upon the theatrical release of the movie. Licenses Licenses represent one time entry fees paid to Ministry of Information and Broadcasting ('MIB') under the applicable licensing policy for Frequency Modulation ('FM') Radio broadcasting. **Cost of licenses is amortized over the license period, being 15 years.**

**TABLE 3: An example illustrating the amortization policy of the Sun TV Network limited**

Sr.No	Asset	Value of Asset (Rs)	Useful Life (No of Years)	Useful life as per policy	Amortization (Rs)
1	Software	12000	10	3	4000
2	Broadcasting Licenses	4500	15	15	300
3	Satellite Rights	9000	6	6	1500
	<b>TOTAL</b>	<b>25500</b>			<b>5800</b>

### NEW DELHI TELEVISION LIMITED

Intangible assets are recognized if they are separately identifiable and the Company controls the future economic benefits arising from them. All other expenses on intangible items are charged to the Statement of Profit and Loss. Intangible assets are stated at cost less accumulated amortization and impairment. Gains or losses arising from the retirement or disposal of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognized as income or expense in the Statement of Profit and Loss. Amortization of intangible assets is provided using the **straight line method** based on the useful lives as estimated by the management. Amortization is

charged on a pro-rata basis for assets purchased/sold during the year. **Individual assets costing less than Rs. 5,000 are amortized at the rate of 100% in the year of acquisition.**

The management's estimates of useful lives for intangible assets are given below:

Computer software's are amortized over a period of 6 years. Amortization method and useful lives are reviewed at each reporting date. If the useful life of an asset is estimated to be significantly different from previous estimates, the amortization period is changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortization method is changed to reflect the changed pattern.

**TABLE 4 : An example illustrating the amortization policy of the NDTV limited**

Sr.No	Asset	Value of Asset (Rs)	Useful Life (No of Years)	Useful life as per policy	Amortization (rs)
1	Software	12000	10	6	2000
2	Broadcasting Licenses	4500	15	1	4500
3	Satellite Rights	9000	10	10	900
	<b>TOTAL</b>	<b>25500</b>			<b>7400</b>

### 5) CONCLUSION

From the above policies and numbers, it may be concluded that for a given asset base, the amount of amortization differs due to the organization policy and thus brings a difference in the amount of profits. Organizations tend to use a little discretion or judgment in the policies related to amortization, life of the asset etc. There is neither

any single process universally for the same nor any standard prescribing how amortization or life or impairment should be calculated. At times organizations also misuse the flexibility of judgment given to them. A difference in the policy also brings out differences in the profit base when compared.



# **IMPACT OF TRAINING AND DEVELOPMENT ON EMPLOYEE AND ORGANISATION: A CONCEPTUAL STUDY**

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## **ABSTRACT**

The major objective of this study is to focus on the conceptual study of employees training and development programs and its impact on employees and organization. This study examines the structure and elements of training and development programs and describes the positive outcome of training and development programs on employees and organization. In this present highly competitive environment it is very complex for organization to survive successfully and to achieve competitive advantage among competitors. Employees are considered as most important assets of company and performance of company relay on them. So, organisation invest large amount on training and development of employees. Moreover, Training and development programme should emphasis on expertise and knowledge. There are considerable research have been conducted on effectiveness of training and development programs. The study described here is a watchful assessment of literature on structure of employees training and development programs and its benefits to employees and organization.

## **1. Introduction**

In every segment the performance of any organization is immensely depends on its employees. Thus, there are different aspects that perform major role. In this global competitive market an organization need to be sure about skilled employees. Therefore, every organization needed to be careful about retention of employees and their job satisfaction to retain efficient employees. Many organizations consider that employees only required money for rendering their service. But most of the employees look for the job satisfaction and positive environment. So, organization should focus on the program which is related with development of employees and most significant is training and development (T&D) program. Many organizations are investing lot of amount on training of employees. Significance of training for employees is speedily growing and this is one of the best tools to get competitive advantage among others.

Researchers suggest that T&D has impact on organizational performance. Training is climbed to be as tool which is beneficial for employees as

well organization. Every organization should seek to provide its employees with learning and development opportunities that are both targeted to their individual need and which produce measurable and worthwhile business result (Robert O. Brinkerhoff and Anne M. AP King 2002). Since 1959, Donald Kirkpatrick's four level model for evaluating training program reaction, learning, behaviour, result has become extensively used approach by organization. But in today competitive environment will it work in real world is a big challenge. So, further more study is required to determine effectiveness of training and development program on employees and organization.

## **2.0 Review of literature**

### **2.1 Training and development program**

Many organizations provide T&D programs to their employees to improve their skill and abilities. Conduction of employment development programme is not a new concept in United States. General Motors established first corporate universities in 1927 with the name of General Motors Institute (Gerbman, 2000). The concept

was not popular but in 1950s large number of organization adopted development program. McDonald's followed similar trend with the establishment of Hamburger University to provide training to its managers in the early 1960s (Garger, 1999). In spite of these progressive organizations, employee development program still faced the pains. People quickly understand that they were reaching on an upper level in their careers and the opportunities for advancement did not exist (Moses, 1999). It was a way for companies to plan for future and nurture young workers for senior management positions (Moses, 1999). Mel Kleiman (2000) explained that the essentials parts of a worthy employee training program are constructed on orientation, management skills, and operational skills of employees. These theories are the groundwork of any employee development program. According to Barbara Moses that, "today, job security is dead and loyalty to corporation in traditional sense has died along with it" (1999) under this statement, organizations have to change their view towards the employees development. The core competencies in this model are, "learning to learn, communication and collaboration, creative thinking and problem solving, and career self-management" (Kottke, 1999). Primary goals of many employee development programs is to communicate the vision of the organization, help workers understand corporate values and culture, and show employees at every level how they can help the company succeed (Gerbman, 2000). There are also companies that require a certain number of training hours for every employee at every level of organization so that everyone knows their role in carrying out corporate mission (Wilson, 2000). T & D program is a planned education aspect and with exceptional method for sharing culture of firm, which moves from one job skills to recognize the workplace skills, developing leadership, follow of principal of initiation, innovative thinking and problem resolving (Meister, 1998). Employee development programs includes a variety of teaching technique, schedule, and helping learning environment that ensure employee to improve their skills and later apply on their jobs (Gerbamn 2000).

## 2.2 Elements of Training

There is no fixed method of structure of employees training. Though, particular considerable methods can be used. An ideal employee training and development program must be a combination of career development, knowledge and goal setting. These elements will benefit the program to be more constructive for employees and organization both. Now a day's organization is widely using the information technology system for their training program. IT are speedily moving and it is difficult for organization to survive if they not providing the up to date knowledge of IT to their employees. Development of employee is a joint responsibility of management and employees. Availability of appropriate resources and healthy environment is the responsibility of organisation that helps to individual as well as organizational goals. Moses (1999) identified that in the early 70s, organizations make all the efforts in career planning and development in younger employees, who may had highest possible potentials in contributing organizational success and achieved high positions. This commitment can be described as emotional agreement by which employers are commonly guaranteed the loyalty for long term commitment with organization in result of providing employees work safety, chances for advancement in career, and training opportunities (Feldman, 2000). Therefore, it can be concluded that organization's top management focuses on T& D not only for employee's career development but for retaining good workforce. Training is the skills learnt that improves the rate of productivity of the given companies (Gelade & Ivery 2003). Different types of training are provided to different employees depending upon the level or area of operation. Informing the employees of the necessity of the training would motivate them as in actual sense the employee stands as the beneficiary to this training (Wright & Geroy 2001). Thus, commitment of employees plays big role as few employees feel the risk of right sized of employees in organization. The key component of career planning and employee development is goal setting. It is the responsibility of organization is to provide the proper equipment to perform the

job so employees should be given opportunity to perform the job better. Development program help employees to learn and facilitating them to become a critical philosopher (Garger 1999). Sears Roebuck & Co. remains careful on this idea as organization doesn't want that all employees think similar but the organizations need to give those employees conceptual skills to think in a different way (Gerbman 2000). Employees training and development program should be organised in such a way that it not only completion of task but have positive impact on employees and organization.

## **2.3 Employees Benefits from Training and Development**

### **2.3.1 Employees Motivation**

Jones (1955) argues that motivation is concerned with how behaviour gets started, is energised, sustained, directed, stopped and what kind of subjective reaction is present in the organisation while all this is going on. Best resources and training should be provided to the employees which decrease the cost of supervision and increase morale of employee. Personal goals of employees and organizational goals should be matched to enhance the development speed of organisation. Technology should be updated time to time. Slow speed technology resources enhance the frustration of employees and reduce their productivity. Training gives the employees a sense of belongings which motivate them to perform better. Therefore, it can be said that training and development leads to job commitment which further leads to motivation. Upgrading employees' performance and motivating them through training is an essential in today's competitive environment.

### **2.3.2 Employees Satisfaction**

Companies which are willing to spend money on their employees, give value to work with those companies, even though that investment eventually benefits the organization (Wilson 2000) Employees have no feeling about their organizations, if they think that their organizations are not caring about them (Garger 1999). Training increase organization's reliability for the reason that employees recognize their organization is

spending in their future career (Rosenwald 2000). Organizations which are offering the T&D programs for their employees are achieving high level of employee satisfaction and low employee turnover (Wagner 2000). Commitment with the organization cannot be calculated but it is intrinsic feeling of employee. Employee feels satisfied and wants to remain with their organization, when they feel they are putting their efforts and skills in the bottom line for their organization (Logan 2000). Usually the good performer do not depart for the sake of financial benefits, Though the salary and financial incentives plays significant role to retain the employees. Employees look for the opportunities to acquire modern skills, to cope up with the different duties and observe the opportunities for personal as well as professional development. So, developing these requirement facilities help in boosting the self-esteem and confidence (Nunn, 2000).

### **2.3.3 Employees Performance**

Training enhances the positive behaviour of employees toward work which resulted in improving employee's performance and further constructional changes (Satterfield and Hughes 2007) that leads to increase in employee performance (Kraiger 2002). Wright & Geroy (2001) note that employee competencies change through effective training programs. It therefore not only improves the overall performance of the employees to effectively perform their current jobs but also enhances the knowledge, skills an attitude of the workers necessary for the future job, thus contributing to superior organizational performance. Researches on training and employees performance have suggested that training have positive impact on the performance of employees. Swart et al. (2005) elaborate on training as a means of dealing with skill deficits and performance gaps as a way of improving employee performance. According to Swart et al., (2005), bridging the performance gap refers to implementing a relevant training intervention for the sake of developing particular skills and abilities of the employees and enhancing employee performance.

## 2.4 Benefits to Corporation from T& D Program

There are number of benefits to the organisation from different training and development programs. Some of the major highlights are as follows:

### 2.4.1 Employee Retention

Fitz-enz (1990) described that employee retention is not influenced by a sole component, but there are lots of components which are responsible for retaining employees in a corporation. Management need to pay attention to factors such as compensation & rewards, job security, T & D, supervisor support culture, healthy work environment and organization justice etc. Osteraker (1999) observed that employee retention and satisfaction are main elements for success of an organization. Pritchard (2007) opined that training and development is one of the important retention programmes incorporated in an effort to retain their employees. Organizations make great effort to attract the employees and to sustain them in organization. Employees retaining is most important target of an organization because hiring of qualified employee is significant but their retention is big target. According to Noe (1999), employees have perception to acquire new knowledge & skills which they apply on the job and also share with other employees. According to Gomez et al, (1995), training provides specialized technique and skills to employee and also helps to rectify deficiencies in employee performance, while development provide the skills and abilities to employee which will need the organization in future. It can be concluded that employee's turnover is inversely related to training. If there is lower the rate to training then higher the rate of turnover. Therefore, retention of employees by providing proper training is the biggest competitive advantage to an organization.

### 2.4.2 Organizational performance

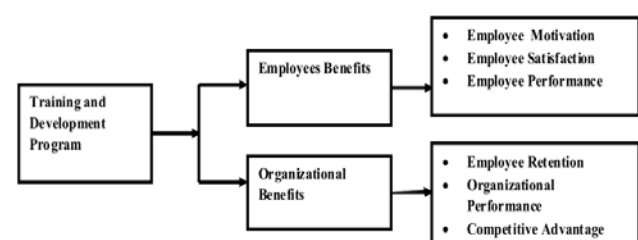
Training has positive relationship with the internal organizational performance (barre O'Connell 2001; Ahmad and Schroedar, 2003 Aragon-Sanchez et al., 2003) these studies suggested that training influences the organizational performance

outcome and quality performance outcome. The current research proposed that the facility of training and development program is likely taken consent by employee that their organizations need to enter a social exchange with them. This social exchange agreement produces a durable psychological bond between employee and organization (Garrow 2004). Past research showed that training is able to generate significant and positive impact on organizational performance.

### 2.4.3 Competitive Advantage

Now, the question arises, is training can enable firms to sustain their growth, maximize their economic opportunities, build the capability to meet the social goals in order to critically challenge the twenty-first century. It is important to see in which way training helps in achieving competitive advantage to an organization. Competitiveness is a firm's ability to maintain and gain market share in its sector. Greengard (2000) proposed that organizations are required to develop and maintain such learning environment for the employees that expand the knowledge of organization and competitive ability. Though, employee training programs derived through a high price, but have a positive impact on return-on-investment. Microsoft, and General Electric Company are entirely large effective organizations, and these organizations realize training opportunities as an investment (Kleiman 2000). American Society for Training and Development in his research by wanger (2000) described a relation between financing employees' development program and higher profit from stock market. A firm can achieve competitive advantage only if it has adequate knowledge-based worker and if firm realize the significance of knowledge and necessity of knowledgeable employee.

**Figure 1: Proposed Model of Study**





### 3. Result

The evidence in current research can be used into effective action in different ways by variety of organization. The main view point is company invest large amount on their employee and inculcate practices and beliefs that indicate the highest commitment of employees. Employees required a sense of belongings that they are leading to significant betterment to business success and providing earnest results and intention to do their job well. Moreover it is not easy for most of the companies to evolve corporate level organization and provide better chances for internal promotion but it is easy for organization to provide career goal and career betterment opportunity and plans to develop their career. Small organization may find that they groom employees who apply their skill and abilities for development of organization; however organization also discovered that employees are showing loyalty towards the organization. In this research there is ample boost for individuals and organization to obtain varied benefits from training and development program. These benefits comprise of efficiency and element that related with the employees performance. This study has gathered favoured for positive impact of training and development program on organization. These benefits contain employee's retention, organizational performance and competitive advantage.

### 4. Recommendations

In this study researchers furthermore identify the exclusive instruction for further research. Firstly that training and development program have positive impact on the individual and organization i.e. employee's benefits and organization benefits. Though, further research is required to identify the factors that help in smooth reconstruction of employee's development benefits on different organizational level. A conceptual model of this process is available and there has been little empirical research on this topic (Kozlowski et al. 2000). Secondly, there is big difference between the applied and academic literature related with the usefulness of training and development program. The impact on performance of individual

and organization may not be same as recognised. Organization is aware regarding the benefits of training and development to the employees. Research is required related to the factors which can raise the awareness at numerous stages of exploration of benefits of training and development. This research can help in analysing the impact of training and development performance acquired by employee and organization.

### 5. Conclusion

In this study, researchers suggested that training and development program have positive effect on the employee and organization and described the benefits to employee and organization gains through training and development. This study described that these benefits results into the accomplishment of greater organizational performance. Study suggested employee's benefits from training and development which are mainly employee motivation, employee's satisfaction, employee performance which finally leads to the organizational benefits namely employee retention, organizational performance and competitive advantage. After completion of study researcher strongly recommended that it is very beneficial for every organization to provide training and development programs to employees. If there is proper training and development program for the employee it will enhance the performance of organization and will definitely helps in capturing the market share through competitive advantage. An organised training and development program will significantly help organization in retention of efficient human resource. If organization is able to meet employees requirement then both employee and organization will achieve long term benefits. It is also very useful for the organization to timely evaluate the training and development program.

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# IMPACT OF INFORMATION COMMUNICATION TECHNOLOGIES ON VOCATIONAL EDUCATION AND TRAINING IN INDIA

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## ABSTRACT

*Education is the process of facilitating learning or the acquisition of knowledge, skills, values, beliefs, and habits. It is also acquisition of knowledge or skills through study, experience, or being taught. The Information and Communication Technologies (ICTs) influence on all fields. ICTs dramatically changed the way we live, learn, and work. These changes not only brought about considerable challenges to Technical and Vocational Education and Training (TVET), but also created new opportunities for change and innovation. In fact, the ICT revolution makes knowledge a competitive resource. In this era, economic prosperity depends on brain rather than brawn and value is created by employing knowledge workers and continuous learning. The need for education and the changing labour market condition, call for flexible access to TVET. The ICTs can play a crucial role in removing the barriers of distance and in developing a lifelong learning culture in TVET. Consequently, ICT and TVET professional courses are integrated at all levels.*

**Key Words:** ICTs, Media, Industrialisation, Technical & Vocational Education, Training, Lifelong Learning and Online Learning.

## Introduction

Over the past few years, observers of education have speculated about dramatic changes that will occur to accommodate more learners at lower costs and to facilitate a shift away from the accumulation of knowledge to the acquisition of a variety of cognitive and non-cognitive skills. As in any other field, ICTs have been playing great role in vocational education and training. With the advent of Internet and e-learning the vocational education got the required impetus for lifelong learning. Vocational education and training is not just preparation for work, it is preparation for life. It is well established that human resources are paramount for the success of any institution, whether it is production centre or service organisation. A well trained work force is what matters most in quality output and success of the organisation and economy of the society. Due to industrialisation and technological revolutions many of the unskilled jobs existing a generation

ago are disappearing. In this context vocational education and training (VET) gains importance in transforming the unskilled workforce for employability in tune with the changing needs of the industry (Attwell, 1999). While the technologies improved the quality and quantity of production, ICTs paved the way for better training and lifelong learning. The Internet and web based Learning can substantiate the vocational education. This paper deals with the impact of ICTs in vocational education and training in India.

## Vocational education and training in India

The education planners in India recognised the importance of vocational education and training (VET) and made provisions for fulltime and part time courses in VET. The technical and vocational education and training system (TVET) in India develops human resource through a three-tier system: a). Graduate and post-graduate level specialists (e.g. IITs, NITs, and engineering

colleges) trained as engineers and technologists. b). Diploma-level graduates who are trained at Polytechnics as technicians and supervisors. c). Certificate-level for higher secondary students in the vocational stream and craft people trained in ITIs as well as through formal apprenticeships as semiskilled and skilled workers.

In India, education is the key to the task of nation-building. It is also a well-accepted fact that providing the right knowledge and skills to the youth can ensure the overall national progress and economic growth. The Indian education system recognizes the role of education and particularly Vocational Education (Mohankumar, 2014)

The Ministry of Human Resources Development, Govt. of India, in its mission document 2012 states that “Job oriented courses in ICT will be developed and established for students of the vocational stream at the higher secondary level by linking them with the need of ICT enabled industries/ establishment in the neighbourhood. The scope of these courses would be a broad based ICT literacy. It will not be limited to ICT based occupations, but will inform and enhance productivities in a wide of other occupations (for example, accounting, office automation, office communication, data handling and data processing, desktop publishing, graphics and designing, music and video, etc). This will also include course on cyber security.”

The National Institute of Open Schooling (NIOS) states that “Vocational Education and Training (VET) is an important element of the nation’s education initiative. In order for Vocational Education to play its part effectively in the changing national context and for India to enjoy the fruits of the demographic dividend, there is an urgent need to redefine the critical elements of imparting vocational education and training to make them flexible, contemporary, relevant, inclusive and creative. The Government is well aware of the important role of Vocational education and has already taken a number of important initiatives in this area. School-based vocational education in India is currently covered by a

centrally sponsored scheme which was mooted in 1988 and was aimed at providing an alternative to the pursuit of higher academic education. One of the objectives of the Vocational Education Programme of NIOS is to meet the need for skilled and middle-level manpower for the growing sectors of economy, both organized and unorganized. The range of Vocational Education courses has been expanding over the years depending upon needs of learners and market demands. The present Vocational Education courses of NIOS are meant for both urban and rural sectors.”The NIOS not only provides online admission to a number of courses it also offers the course material online.

While that is the effort of the government there is also private contribution in using ICTs by voluntarily sharing their skills and experiences in the field of vocational education. There is a general consensus that human capital is the key ingredient for achieving and maintaining competitiveness in world trade. There is also a widespread acceptance among nations that the workforce must be carefully prepared and the employees’ skill sets are maintained continuously. Thus there is a need for lifelong learning that requires a flexible system of education and training. ICTs provide the flexibility to meet diverse learners’ needs anytime, anywhere.

Vocational education is based on occupation and employment that one chooses to adopt. It is also considered as career and technical education. Vocation education prepares people for specific trades, crafts and careers at various levels in all spheres of life. It involves various practical activities, sometimes referred as technical education.

### **Vocational Education and Vocational Training**

Vocational education and vocational training are always used in an interchangeable manner all over the world. It is difficult to find a country in which these terms are employed as exact synonyms in referring to industrial and vocational activities involving instruction. Yet, it is equally difficult to find a country where the two different terms are not used to describe identical education and /or

training activities. The dualism exists and they are closely related to organization, governmental and the institutional framework identified with the education and training.

Traditionally, education has been more closely identified with intellectual activities occurring in a school setting whereas training has been more closely identified with manual activities in a non-school instructional setting. Since all forms of vocational preparation for work roles involve the shifting of the burden of humans from their backs to their minds, these additional separations have lost validity. Nevertheless, the dualism persists as it is an important element of the conceptual and environmental setting of vocational education. This dualism exists with varying intensity in different countries or with varying intensity among different groups within the same country. Nevertheless, the expressions in terms of 'vocational education and training', 'vocational and industrial education', and 'vocational and technical education' are also in practice to take-up the field of knowledge and skill in a broader perspective and to avoid any sort of ambiguity.

Vocational education in India refers specifically to vocational courses offered in school sector under the centrally sponsored scheme called 'vocationalization of secondary education'. Hence, vocational education falls under the purview of Ministry of Human Resource Development. But vocational training programme falls outside the formal schooling cycle. It is institution based with varying entry requirements as well as course duration. The proportion of practical to theoretical instruction in vocational training programmes is also higher than in vocational education. It is open to students who leave school after completing anywhere from standard 8<sup>th</sup> to 12<sup>th</sup>. Vocational training institutions are administered by the Directorate General of Employment and Training, Ministry of Labour and Employment. The office of the Directorate General formulates policies and lays down standards and technical requirements such as developing curricula, instructor training and skills testing.

### **National Council for Vocational Training**

National Council for Vocational Training (NCVT) an advisory body was set up by the Government of India in the year 1956. The National Council is chaired by the Minister of Labour, with members from different Central and State Government Departments, Employers and Workers organizations, Professional and Learned Bodies, All India Council for Technical Education, Scheduled castes and Scheduled tribes, All India Women's Organization, etc. And State Councils for Vocational Training at the State level and Trade Committees have been established to assist the NCVT. Main mandate of the NCVT, according to DGE&T, is to establish and award National Trade Certificates in engineering, non-engineering, building, textile, leather trades and such other trades which are brought within its scope by the Government of India. It also prescribes standards in respect of syllabi, equipment, scales of accommodation, duration of courses and methods of training. It also conducts tests in various trade courses and lays down standards of proficiency required for passing the examination leading to the award of National Trade Certificate. A new direction has been given to Vocational Education by NCVT.

The NCVT is currently responsible for awarding certificates to trainees graduating from it, both public and private; NCVT is also charged with regulating the private ITIs. Given the poor regulation many of new Institutes are merely one-or-two room shops that offer a few courses in professional trades and face a severe shortage of qualified trainers and instructors. Naturally, the quality of training suffers. This reveals the clear need to strengthen the NCVT, along with its state level counterparts, the state councils for vocational training. Country also needs more vocational institutions that train trainers.

### **Need for Vocational Education**

Vocational, or skills-based, education is becoming more and more important today, with many employers expecting new employees to have all the practical skills they need to start work and also



for those who have to support their families immediately after senior secondary education. (Chinien, 2013) Vocational courses are typically more practical and skills-based than academic degrees, but they are often taught at universities as well as colleges and technical institutes. Vocational Education and Training (VET) is an important element of the nation's education initiative.

Vocational education aims at hands on training, practical exposure, employability and sustenance. It could be hospitality and tourism, retail management, software development or interior design. There are literally thousands of skills based training options out there. In today's technical world, even an engineering graduate is supposed to have some technical skills apart from the degree possessed by him or her i.e. in the form of certification.

Thus, for the first time in India's Vocational Education and training history, the National Skill Development Corporation (NSDC) has promoted vocational training provision on a for-profit business model, but different providers are registered and recognised, and are not fly-by-night operators. The Information Technology sector in India has long used this business model very successfully.

The Vocational Education and training system in India is rather narrowly based (Swaminathan 2005; Tilak 2002). It manages to provide VET to a maximum of only 5 million persons a year. Clearly, the TVET sector must be reformed and expanded. The current capacity of the VET system is woefully inadequate, if we accept the requirement that an additional 191 million persons need skills training by 2022. In other words, India should be skilling nearly 20 million a year, as opposed to the current 5 million.

#### **Broad Areas in Vocational Education**

- Agriculture
- Home Science
- Hospitality and Hotel Management
- Computer Hardware & ICT

- Engineering and Technology
- Health and Paramedical
- Elementary Teacher Training, etc.

#### **Impact of ICT in Vocational Education and Training**

ICTs are making a large impact in the move towards e-learning in recent years. India has developed a strong a Space program over 50 years, mostly by indigenous efforts. From the 1980s, when computer-based education started to be delivered through CD-ROMs, e-learning has boomed, paving the way for several private players and government agencies which create and deliver e-learning systems today. The growing availability of broadband and the digital revolution have opened up new forms of learning content production and delivery: for example, ***online learning opening up ready-access to digital media rich content and more recently mobile learning allowing us to change where we learn—anytime and anywhere*** (Morpe, Chakroun & Holmes, 2015). ICT is a general tool in all fields of work and professions today. Consequently, ICT and Technical and Vocational Education and Training (TVET) professional education are integrated at all levels. (UNESCO & Commonwealth of Learning, 2017).

In the use of ICT in and for education in general, UNESCO stresses several points. Firstly, ICT is only part of a continuum of technologies, starting with chalk and books, all of which can support and enrich learning. Secondly, ICT, as is the case with any tool, must be considered as such, and used and adapted to serve educational goals. Thirdly, many ethical and legal issues intervene in the widespread use of ICT in education, such as ownership of knowledge, the increasing exchange of education as a commodity, and the globalisation of education in relation to cultural diversity.

Globalization has created a new world order for doing business. New information and communication technologies have dramatically changed the way we live, learn, and work, and even think about work. (Allen, Walker & Morehead,

1999) The synergy of combining globalization with new technology has had dramatic economic and social impacts. It has created new opportunities as well as new challenges and uncertainty. Many workers have been dislocated, while a significant number of young people are structurally unemployed or underemployed. Skills polarization between so-called mind or knowledge workers and unskilled-low-knowledge workers has widened the gap in income inequalities. Youth, women, and older workers are the groups most affected. While these changes have brought about considerable challenges to TVET, they have created new opportunities for change and innovation. In the past the status and condition of vocational education did not match the importance of its potential contribution to society. However, in this new environment where human capital has become the most critical element in achieving a competitive advantage, TVET can now aim to reach its full potential.

In fact, the ICT revolution makes knowledge a competitive resource. In this economic era, economic prosperity depends on brains rather than brawn and value is created by employing knowledge workers and continuous learning. (Blurton, 1999) The need for recurrent education and the changing labour market conditions, call for flexible access to TVET. Continuing education models that will meet workers' lifelong learning needs have to be relevant and flexible to provide just-in-time learning without distance. ICTs can play a crucial role in removing distance from education and in developing a lifelong learning culture in TVET.

"Everyone, everywhere should be enabled to participate in and no one should be excluded from the benefits of the global information society" (Okinawa Charter on Global Information Society, 2000). There is a growing dependence on communication, learning and computing technologies to sustain potential learners. Without access to, and continuous development of innovative ICTs, many individuals, public and private institutions, and possibly entire countries, will fail to acquire the competitive edge that is

needed to succeed. Given this imperative, it is necessary to develop best practices that encourage and sustain ICT-mediated teaching and learning in Technical and Vocational Education and Training.

A wide variety of ICTs are now available for teaching and learning, ranging from simple printed materials to sophisticated Internet-based learning. The penetration of ICTs in education across UNESCO's Member States varies considerably and generally seems to be proportional to economic conditions. (Asia and Pacific Regional Bureau for Education, 2003) The digital divide between the haves and have-nots is a major issue. In the context of ICT-mediated instruction, the emphasis is placed on self-directed learning rather than teaching. Consequently, the ability to acquire, process, store, retrieve, and use information is becoming a critical element for successful learning. This condition is responsible for a cognitive divide, which is debilitating for people with limited cognitive skills.

TVET educators have always been early adopters of innovations related to ICT tools, equipment, and system controls. The same is true regarding the use of ICTs for supporting the delivery of TVET programmes. There is a paucity of information on the extent to which ICT-mediated learning is being integrated in TVET. While there are pockets of exemplary TVET programmes that have successfully implemented ICT-mediated learning in different parts of the world, Australia, Canada, and the United States appear to have reached a more advanced level of integration. There are many barriers that hinder the integration of ICTs into teaching and learning in TVET. The most significant are infrastructure, availability of suitable materials, job threat, appropriateness of the methods, and credibility of programme content. Although there are some anecdotal records of successful attempts regarding the use of ICTs for teaching affective and practical skills, there is no hard evidence in support of these claims.

TVET teachers need to keep up to date in order to maintain their occupational literacy skills. Those

involved in the integration of ICT-mediated learning need training in the pedagogical applications of ICTs for teaching and learning. Students also need a set of ICT literacy skills in order to succeed in ICT-mediated learning environments.

Countries with more advanced economies need to assist developing countries in establishing the necessary ICT infrastructure and capacity building in TVET. The open courseware initiative and public repository of learning objects must be encouraged to minimize the effects of the digital divide. (UNESCO, 2015)

### Conclusions

India has an emerging economy and progressing well in the field of industrial development. Emerging economy always needs a strong contingent of trained workforce and hence, a number of initiatives have been taken by the government of India to create a pool of skilled manpower. As the required number is huge and the existing institutional capacity is less, there may still be shortage of skilled manpower. Hence, a well coordinated effort is the need of the hour. It is high time that all the institutions join together to increase their capacity and produce quality skilled manpower so that they participate in the nation building activities.

It is imperative that quality parameters are considered as the most important factor which will ultimately determine the success of any programme or activity. In the current times, the traditional forms of management of organizations do not seem to work as complexities of the system have increased by leaps and bounds. Quality is the mantra of current times. Though quality is a work familiar to everyone, it has a variety of meanings. Quality is both a user-oriented and production-oriented expression. From the user's point of view, quality is an expression of the products/services usefulness in meeting the needs and expectations and its reliability, replicability, etc. It can also be a measure of performance.

Like in any other sphere of human activity ICTs have changed drastically teaching and learning.

The Internet coupled with web technologies enabled excellent communication using multimedia, i.e., audio, video and animation. This has come handy for education and training also. Apart from dedicated web sites for every area of leaning, YouTube possesses videos to learn almost anything. The technologies reformed drastically from desktops to laptops to palmtops. Today a large chunk of people are using smart phones that enable seamless Internet connectivity using Wi-Fi or reasonably cheap mobile data plans.

Thus, the ICTs facilitated anytime-anywhere learning that not only helps the students but also the adults who wish to update their knowledge or skills. It is particularly so in vocational education and for lifelong learning. Unlike general education vocational education needs practical training and exposure to real life situations. The ICTs have great potential in getting the students exposed to virtual training trough videos, animation, etc. that exposes the students to the real life situations unlike classroom learning. Thus the ICTs have great role to play in TVET both from public and private sectors.

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# INNOVATION & ENTREPRENEURSHIP DEVELOPMENT

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*“I see start-ups, technology and innovation as exciting and effective instruments for India’s Transformation”.*

*- Shri Narendra Modi, Prime Minister of India*

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## ABSTRACT

*The paper focuses on new directions and strategies of entrepreneurship, innovation and inclusiveness through two programmes launched by the Centre: (i) Start-up India on 16 January 2016, for which the nodal agency is Department of Industrial Policy and Promotion (DIPP), and (ii) Stand-up India on 5 April 2016, for which the nodal agency is Development Commissioner (MSME – Micro, Small and Medium Enterprises). Start-up India programme as outlined in the Action Plan refers to promotion of innovative enterprises with considerable amount of research and development work carried out in collaboration with higher educational and scientific research institutions. Technology Business Incubators promoted for this purpose are normally established in collaboration with a host leading higher educational and scientific research institution. Linking industry with academia to focus on new areas that have potential for development is the direction planned to be pursued for encouraging Start-up entities in various sectors. The entities are sector and scale neutral. To facilitate the youth to take up innovative ventures, creating a favourable and liberal eco-system is a pre-requisite. Easier entry and faster exit are emphasised for the success of these enterprises which involve high risk. Opportunities and challenges are presented in the article along with strategies. In this programme, the key players that deserve special mention are Department of Science and Technology (DST), and Department of Industrial Policy and Promotion (DIPP) from Government of India, and Small Industries Development Bank of India (SIDBI) among development financial institutions. Stand-up India programme refers to promotion of micro, small and medium enterprises (MSMEs) by women and SC/ST entrepreneurs across the country with focus on rural and semi-urban areas, and remote and less developed regions. This speaks of inclusiveness. Entrepreneurs promoting MSMEs can pursue these high potential directions which are prone to high risk and yield high reward.*

**Key words:** Start-up, Stand-up, Innovation, Entrepreneurship, Incubator

## 1. Introduction

India has been progressively moving towards an economy driven by knowledge and innovation. The Global Competitiveness Report (GCR), released annually by the World Economic Forum (WEF), Davos (Switzerland) classifies national economies into three broad categories: (a) factor-driven, (b) efficiency-driven, and (c) innovation-

driven. Many economies are considered to be in the transitional phase between any two given broad groups. These categories are seen as indicators of a development ladder. In factor-driven economies, economic development is primarily driven by basic requirements of various sectors. In efficiency-driven economies, government’s focus is on ensuring the smooth functioning of mechanisms



such as markets and technological progress. In the innovation-driven economies, entrepreneurial framework conditions become more important as levers of economic development than basic requirements and efficiency enhancers. The outcome of the model is national economic growth through, for example, job creation and technical innovation. India is placed in the factor-driven category. It is yet to move to the Efficiency-driven category, as per WEF studies.

In the Global Competitiveness Index (GCI) 2016 as published in GCR 2016, India has scored 16 points, to the 39<sup>th</sup> position from 55 by rising rapidly among all countries. In GCR 2015 also it was stated that, India has scored 16 points, and moved up from its earlier ranking of 71 to 55, out of a total of 144 countries. Among the emerging and developing Asian nations, India ranks sixth after Malaysia (18), China (28), Thailand (32), Indonesia (37), and the Philippines (47). India has the potential to move ahead of these countries. Despite moving 15 places up to 66<sup>th</sup> rank from 81 in the Global Innovation Index (GII) as published in Global Innovation Index (GII) Report 2016, India has a long way to go in promoting innovation, and scientific and industrial research. In the World Bank's Ease of Doing Business Ranking 2016, India is placed at rank 130 out of a total of 189 economies. India's rank improved from 134 in 2015. But on the start-up front, India ranks third position globally with 4200 start-up entities, next only to USA and UK. The new initiatives in promoting Start-ups would enable India to progress fast.

The Global Entrepreneurship Monitor (GEM) released annually from USA has focused on Entrepreneurship as a process comprising different phases, namely, from intending to start, to just starting, to operating new or established enterprises, and even discontinuing the business. GEM 2014 describes India as an emerging entrepreneurial country, giving details as follows: In India, 4.1 per cent of adults are 'nascent entrepreneurs' (actively involved in setting up a business) while 2.5 per cent are 'new business owners' (in operation for more than 3 but less than

42 months). Combining these two stages, gives us the Total early stage Entrepreneurial Activity (TEA) rate, meaning that close to 7 per cent of the Indian adult population, or 1 in every 15 adults, are engaged in some form of early stage entrepreneurial activity. In India, adults are generally positive about entrepreneurship. GEM 2014 showed that 58 per cent of Indian adults (aged between 18 and 64 years) consider entrepreneurship as a desirable career choice; and around 66 per cent of adults think that entrepreneurs receive a high level of status and respect in the society. (India MSME Report 2015: 72)

## **2. Start-up India: An Initiative for Innovation and Inclusiveness**

Among the turnaround initiatives introduced in the recent two years by the NDA Government, special mention may be made of Start-up India and Stand-up India to promote entrepreneurship, innovation and inclusive development at all levels of economic growth and social development process. Start-up India is a flagship initiative of the GoI, intended to build a strong eco-system for nurturing innovation. This will drive sustainable economic growth and generate large scale employment opportunities. This is the platform where creative and innovative youth will get a forum to translate their dream into a reality. The youth of India today have the confidence to venture out on their businesses and enterprises through innovative approaches. Therefore, a favourable and liberal eco-system is a pre-requisite to help them succeed. Start-up India details are discussed first; and Stand-up India is covered in the second half of the article.

Start-up is an expression generally used in the micro, small and medium enterprise (MSME) sector to refer to entrepreneurs who have promoted enterprises recently or prospective entrepreneurs about to launch the enterprises. In this sector, technocrat entrepreneurs who have expertise in certain product lines, keen on promoting new enterprises are given encouragement and handholding support through a number of incentives and facilities. This category is given special recognition through science and

technology oriented entrepreneurship development programmes. One of the attributes of this group is to take up enterprises for which processes have been developed but have not yet been commercially proved successful, *i.e.*, those product lines / processes with high risk and high reward. Special institutional infrastructure and programme content has been developed for this group of entrepreneurs. Science and Technology Entrepreneurs Parks (STEPs), Software Technology Parks (STPs), and Technology Business Incubators (TBIs) have been developed in different regions to meet their needs. In the newly announced Start-up India initiative launched on 16<sup>th</sup> January 2016 by the Prime Minister through a Start-up Action Plan, the term is given special connotation, as presented in this section, specifically applicable for innovative enterprises where innovativeness is identified and certified by a government recognised organisation such as an Incubator (see Appendix 2). The entity is sector and scale neutral. The entity can be in any of the sectors such as agriculture, manufacturing, healthcare, education and other social sectors. bio-technology, information technology, IT-linked activities, consumer electronics, etc. Emphasis is on IT and IT-related services to begin with, with the intention of promoting scale neutral entities, and encourage not only youth from within the country, but also attract non-resident Indians and experienced persons from other countries to participate in the 'Make in India' campaign. Two other criteria to be fulfilled are: (a) the enterprise registered not prior to five years from 2016, and (b) annual turnover in the recent five years not to exceed <sup>1</sup> 25 crore. The nodal agency for the Start-up Policy is Department of Industrial Policy and Promotion (DIPP) of the Union Ministry of Commerce and Industry. In terms of scale of operation, entrepreneurs in the MSME sector can also participate, provided they are able to fulfill various conditions and attributes that go with the definition of a start-up entity in the present Start-up India initiative. For MSME entrepreneurs, not able to come up to the criteria laid down for the newly announced start-up programme in the Start-up Action Plan formulated by the DIPP, MSME

promotion package relevant to their needs can be considered by them for establishing enterprises of their choice (*LUS* – January 2016).

### 3. Definition of a Start-up India Initiative

“Start-up means an entity, incorporated or registered in India not prior to five years, with an annual turnover not exceeding <sup>1</sup> 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.

- a. Provided that such entity is not formed by splitting up or reconstruction of a business already in existence;
- b. Provided also that an entity shall cease to be a start-up if its turnover for the previous financial years has exceeded <sup>1</sup> 25 crore or it has completed 5 years from the date of incorporation or registration;
- c. A start-up shall be eligible for tax benefits only after it is certified by an inter-ministerial board. For this purpose, the start-up should be supported by a recommendation, with regard to innovative nature of business from a government recognised incubator.
- d. The mere act of developing products or services that do not have the potential for commercialisation or undifferentiated products or services or processes or have no or limited incremental value for customers would not be a start-up. Smaller ventures would seek funding on their own, and without official sops, but the government must not lose sight of the need to fix India's overall business climate.” — DIPP (2016), *Start-up Action Plan*, New Delhi.

### 4. Process of Setting up a Start-up Entity

Start-ups can be identified as enterprises with innovative ideas, often in the areas of emerging technologies, launched by technically qualified entrepreneurs. The start-up entrepreneurs are qualified in their respective areas of specialisation. The enterprises are launched to develop business

models based on innovative ideas of the entrepreneurs. While the growth rate of the successful start-ups is very high, many of which reach the corporate status within a couple of years, the failure rate of the starters has also been observed to be very high, even at the global level.

Many of such enterprises start at the 'micro' level with a number of them either in the area of Information and Communication Technologies or predominantly based on IT based tools in their business. Again the global experience reveals that the start-ups are located in and around premier technical institutions to avail of the expertise of the mother institution while developing the business model. The 'Silicon Valley' experience is the global benchmark for promoting and supporting the start-ups. Another direction for identifying innovative ideas for start-ups is to collaborate with the network of national laboratories of the Council of Scientific and Industrial Research (CSIR) to take up unproven technologies or processes or those which have been tried out only in a few locations in the country. These refer to high risk and high reward technologies. A third direction is linkage with the major industrial enterprises such as medium, large and mega projects in the country for identifying the project ideas. Yet another direction is tie up with projects in other countries in areas of interest to the entrepreneurs. These approaches do not rule out the scope for micro and small enterprises to experiment with innovative ideas. The entrepreneurs need to explore the scope for these enterprises to exploit the latent potential. Towards protecting the intellectual properties (IP) generated by the start-up, Government assists in filing of patents or alternative IP protection mechanisms. The IP facilitation centres set up under IPR component of the National Manufacturing Competitiveness Programme (NMCP) may be the nodal points in guiding, handholding, and subsidising the start-up entrepreneurs in protecting their IPRs.

## 5. Latest Policy Initiatives for Innovative Start-up Entities

To simplify the regulatory framework, the government introduced the Ease of Doing Business wherein an MSME unit has to fill in a single one page self – declaration online form called Udyog Aadhaar. The single page memorandum constitutes a self-declaration under which the MSME will certify its existence and areas of operation, promoter/owner Aadhaar details, bank account details, and other basic minimum information. With the single window clearances mechanism in operation at various levels, the effort is to create a business friendly environment with easy entry and easy exit procedures to encourage entrepreneurial activity. Under the Apprentice Protsahan Yojana, 50 per cent of stipend payable to the apprentices would be reimbursed by the Government for the first two years which is an incentive for MSME units to take more apprentices. Insolvency and Bankruptcy Code has been passed by the Parliament in May 2016. This makes the process of closure of non-viable enterprises simpler (see Appendix 3). To enable faster exit for start-ups and to bring the winding process in line with the global best practices, the DIPP has written to the Ministry of Corporate Affairs (MCA) to notify the start-ups as 'Fast Track Firms'. Once this is notified, start-ups shall be able to wind up their business within a period of 90 days from the date of making an application for the same, according to a government report on start-ups (dated March 15, 2017) ( *The Hindu*, March 17, 2017)

To give boost to the Make in India programme, the MSME Ministry has launched the ASPIRE scheme in March 2015. ASPIRE is the abbreviation of the scheme for promotion of Innovation, Entrepreneurship, and Agro-industry. ASPIRE has the objectives of creating new jobs to reduce unemployment, promoting entrepreneurship culture across regions in the country, achieving rural industrialisation in less developed regions as well, and promoting innovative business solutions, and thus, strengthening the competitiveness of enterprises. The scheme provides a framework for promotion

of start-up enterprises in agro and rural industries through forward and backward linkages. Setting up of business incubators and technology business centres, and guiding entrepreneurs from selection of project ideas to the implementation of the project are all covered at different stages under this scheme. ([www.msme.org](http://www.msme.org)) Small Industries Development Bank of India (SIDBI) manages the Fund created by the Ministry of MSME under this scheme for investing in Venture Capital Funds (VCFs) with focus on start-ups and early stage enterprises in the areas of rural and agro-industries.

#### Atal Innovation Mission (AIM)

AIM and Atal Incubation Centre (AIC) operated from NITI Aayog are about Innovation Promotion Platform involving academics, entrepreneurs and researchers, and draw upon national and international experiences to foster a culture of innovation, R & D, and scientific research in India. The platform will promote a network of world class innovation hubs and grand challenges for India. SETU (Self Employment and Talent Utilisation) is a Techno-financial, Incubation and Facilitation programme to support all aspects of start-up businesses and other self-employment activities. Objectives of AIM and SETU are to serve as a platform for promotion of innovation hubs, start-up businesses, and self-employment activities particularly in technology-driven areas. For AIM and SETU, Government has announced an initial sum of ₹ 500 crore and ₹ 1000 crore, respectively. AIM is a mission, and SETU is an approach. Therefore, it is considered desirable to have one umbrella scheme, titled, AIM, which covers two sub-components: (a) innovation, and (b) SETU, wherein the innovators would be supported and mentored as successful entrepreneurs. The overall purpose of the AIM is to promote a culture of entrepreneurship and innovation in the country. The key objectives of the AIM include the following:

- To create an umbrella structure to oversee innovation eco-system of the country;
- To provide a platform and collaboration opportunities for different stakeholders;

- To develop new programmes and policies for fostering innovation in different sectors of the economy; and
- To create awareness, and provide knowledge inputs in creating innovation challenges, and funding mechanism to the government.

Already applications have been invited to establish laboratories and incubation centres for this purpose. Under the scheme, each AIC will be eligible to a grant-in-aid of ₹ 10 crore per annum for a maximum of 5 years, towards the capital and operational expenditure in running the centre. To qualify for the support, the applicant has to provide a built-up space of at least 10,000 sq.ft (LUS – August 2016)

#### Electronics Development Fund (EDF)

The Ministry of Communications and Information Technology (C&IT) has created the Electronics Development Fund to promote innovation, research and development, and product development in the field of semi-conductors, nano-electronics, IT and associated sectors by bringing in established companies and start-ups on board. For accelerating research, design and development of electronic products within the country, start-up units would be provided supportive financial assistance from the EDF. A few other ministries of GoI have created similar funds for the benefit of start-ups in product lines coming under their purview. These include Departments of Bio-technology, and Electronics and Information Technology.

The Centre is targeting an investment of ₹ 2,200 crore by 2019 in start-ups working on new technologies in the electronics sector under EDF. The EDF is a kind of 'fund of funds' that works with venture capitalists to create funds, which provide risk capital to companies developing new technologies in the area of electronics, nano-electronics, and IT.

The EDF would put in 10% of the capital in 'daughter funds,' and the rest would be invested by venture capitalists. Hence, the targeted investment of ₹ 2,200 crore by the government



will help mobilising ₹ 22,000 crore for the 'daughter funds'. which will then invest primarily in start-ups. The results of government funding on this pattern have been encouraging. Within one year, with the government investment of ₹ 687 crore, capital mobilised has reached ₹ 6,870 crore under this programme.

### **India Aspiration Fund (IAF) and SMILE of SIDBI**

With ₹ 2,000 crore corpus, India Aspiration Fund (IAF) was launched by SIDBI in August 2015 to boost start-ups fund-of-funds eco-system. This fund would invest in various venture capital funds for meeting the equity requirement of MSME start-ups. Investments in MSMEs will be to the extent of twice the commitment of SIDBI or 50 per cent of the corpus of VCF, whichever is higher. A SIDBI Make in India Loan for Small Enterprises (SMILE) scheme of ₹ 10,000 crore has also been launched to catalyse tens of thousands of crore of equity investment in start-ups and MSMEs, creating employment opportunities mostly for educated youth over the next few years. The objective of SMILE is to provide loans in the nature of quasi-equity and term loans on relatively soft terms to MSMEs to meet the required debt-equity ratio norm. The facility will be applicable for new as well as existing MSMEs. The 25 sectors under the 'Make in India' programme would be the focus with emphasis on financing of smaller enterprises in the MSME sector. Concessional terms will be applicable for enterprises promoted by women, SC/ST persons, and persons with disabilities.

Credit guarantee fund of ₹ 2,000 crore has been created by Government of India for the benefit of start-ups. The guarantee covers up to 80 per cent risk for collateral free credit given by banks and financial institutions for start-up enterprises. SIDBI prepared an online platform, [www.sidbistartupmitra.in](http://www.sidbistartupmitra.in) to promote the start-up eco-system which enables entrepreneurs to get connected with various stakeholders, namely, incubators, mentors, angel networks, VCFs, etc. Start-up programme is supported by the Union Department of Science and Technology. SIDBI

also created a new website, [www.venturefund.sidbi.in](http://www.venturefund.sidbi.in) for providing direct risk capital assistance to MSMEs in the form of sub-debt and equity assistance through VCFs.

SIDBI's role would be more effective through innovative products, processes, and delivery to address various financial and developmental gaps in the MSME eco-system. Greater thrust on start-ups, knowledge-based new age companies, infrastructure, sustainable finance, cluster-centric interventions for finance, development, etc. would act as guideposts of SIDBI's efforts to make the MSME sector stronger, sustainable, more inclusive, and highly competitive in the coming years. (**Source:** *SIDBI Annual Report 2015-16*, Lucknow)

Till date start-ups have been successful in e-commerce and other IT based applications of the services sector. The start-ups in the manufacturing sector are yet to take off in a big way.

The Centre is committed towards providing an environment for start-ups to thrive in as India is at the forefront of an entrepreneurial revolution, the Union Commerce and Industry Minister, Nirmala Sitharaman stated, speaking at the start-up India states' conference at New Delhi on 23 July 2016. Highlighting government's efforts to improve ease of doing business, she said, a start-up would now require only a certificate of recognition from the Department of Industrial Policy and Promotion (DIPP) for IPR (intellectual Property Rights) related benefits. A panel of facilitators has also been constituted to provide assistance in the process, where in DIPP would bear the facilitation cost. The government is working on further softening the existing regulations for start-ups.

"In order to avail IPR-related benefits - rebate in fee up to 80 percent, and free of cost facilitation in filing IPR applications - a start-up will now be required to obtain only a certificate of recognition from DIPP, and will not be required to be examined by the Inter-Ministerial Board, as was being done till recently", the minister stated. DIPP has also written to top 50 companies requesting them to

support Start-up India Initiative under CSR (Corporate Social Responsibility) activities by setting up new incubators in collaboration with educational institutions. Reacting to the success of Start-ups, the Minister observed, Start-up rate of success, world over is not very high. But that is the nature of business. What the government can do is to give a chance for every idea to reach some stage which otherwise would not have materialised. Given the tax breaks, it becomes easier for Start-ups to get funds. The market will determine which ideas go commercial. India has been pegged at the third place behind US & UK in terms of number of Start-ups. 4,200 technology Start-ups exist in India at present, and the number is expected to reach over 12,000 by 2020. (Source: *The Hindu*, Vijayawada edition, July24, 2016).

The response to the start-up policy has been lukewarm till date. Up to end-September 2016, the Department of Industrial Policy and Promotion (DIPP), the nodal government body for the start-up policy, received 1425 applications for recognition under the start-up programme, out of which 111 applications were considered for tax benefits, as only they were incorporated after April 1, 2016; and among them, only 8 were approved for tax benefits. As many as 522 had the required documents, and had been recognised as start-ups. They will be eligible for other benefits such as exemption from various compliances, assistance to file IPR applications, and relaxation in norms for participation in government procurement programme, including items reserved for procurement from micro and small enterprises.

## 6. Funding Pattern for Start-ups

For financing start-up enterprises, conventional banking facilities can be of help at a later stage of development of the enterprise, after it settles down as a moderately successful enterprise. In the early stage, beginning from conceiving innovative ideas, and trying them on an experimental basis, world over angel funds and subsequently venture capitalists provide capital support. When the business model reaches the stage of commercial success, the growth rate of the start-ups becomes phenomenal, and the enterprises shift to full-

fledged industrial premises\offices\laboratories for scaling up the activities with the conventional sources of finance like bank credit. Venture capital funds of Small Industries Development Bank of India (SIDBI), and a number of other venture capital companies in the public and private sectors participate in the funding and management of the enterprises. Initial Pattern of funding is through equity participation and development loan, and contribution from the government through incentives and tax concessions offered for enterprises fulfilling certain criteria. While the angel and venture capital funds finance a project on the basis of their own risk analysis and valuation, the Government can extend support towards reducing the risk. This could be in the form of a guarantee or co-investment through a government promoted venture fund, in addition to providing a wide range of concessions and incentives.

## 7. Institutional Infrastructure for Start-ups

Regarding infrastructure needed for promoting start-ups, the initial effort at encouraging, mentoring and handholding of start-ups can be through incubators promoted at a host educational institution or a research and scientific body. The incubator hub can provide the necessary facilities in collaboration with the host institution. As the enterprises need to move to their regular industrial premises a few years later, it is important to develop modular industrial estates \ laboratories suited to the nature of enterprises to be promoted in that area, with the required plug and play facilities. Linking the enterprises with technical institutions / research bodies on one side and funding agencies on the other is an important direction to be pursued by the incubator hub with the good offices of the key organisations associated with the development of a cluster of enterprises in each location. In the manufacturing activities, the organisational network available in the country beginning from Development Commissioner (MSME), Small Industries Development Bank of India (SIDBI), and Export-Import Bank of India (EXIM Bank) can provide the necessary institutional support. Infrastructure can be planned

by the state level Infrastructure Development Corporation. As the needs of different groups of start-ups are likely to be different, the requirements of different entities need to be carefully examined for planning the facilities. For coordinating and monitoring the implementation of key areas of the programmes, a Start-up cell has been created in the office of Development Commissioner (MSME). The focus is on ensuring the functioning of a single window for the start-ups at various levels. Similarly in various Ministries / Departments, where clusters of enterprises are being promoted in the disciplines falling under their purview, guardianship is to be ensured through a core team associated with the start-ups programme to provide sustained support at various stages of development of enterprises.

#### **8. Tax Incentives for Start-ups announced in the Union Budget 2016- 17**

Tax incentives announced for Start-ups in the Union Budget 2016-17, and approved by the Parliament are presented here.

- i. A deduction of one hundred per cent of profits and gains derived by an eligible start-up from a business involving innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property. This benefit shall be available to an eligible start-up which is set up after 1<sup>st</sup> April, 2016 up to end April, 2019. Income tax exemption is for three years in a block of five years, This has since been revised to in a block of seven years.
- ii. A new section 54 EE will be inserted to provide exemption from capital gains tax if the long term capital gains proceeds are invested by an assessee in units of such specified fund, as may be notified by the Central Government in this behalf, subject to the condition that the amount remains invested for three years failing which the exemption shall be withdrawn. The investment in the units of the specified fund shall be allowed up to <sup>1</sup> 50 lakh.
- iii. The existing provisions of section 54 GB provide exemption from tax on long term capital gains in respect of the gains arising on account of transfer of a residential property, if such capital gains are invested in subscription of shares of a company which qualifies to be a small or medium enterprise under MSME Development Act 2006, subject to other conditions specified there in.
- iv. With a view to provide relief to an individual or HUF willing to set up a start-up company by selling a residential property to invest in the shares of such company, it is proposed to amend section 54 GB so as to provide that long term capital gains arising on account of transfer of residential property shall not be charged to tax if such capital gains are invested in subscription of shares of a company which qualifies to be an eligible start-up subject to the condition that the individual or HUF holds more than fifty per cent shares of the company, and such company utilises the amount invested in shares to purchase new asset before due date of filing of return by the investor. The existing provision of section 54 GB requires that the company should invest the proceeds in the purchase of new asset being new plant and machinery but does not include, *inter alia*, computers or computer software.
- v. It is proposed to amend section 54 GB so as to provide that the expression 'new asset' includes computers or computer software in case of technology-driven start-ups so certified by the Inter-Ministerial Board of Certification notified by the Central Government. These amendments will take effect from 1<sup>st</sup> April 2017, and will, accordingly, apply in relation to the assessment year 2017-18, and subsequent assessment years.
- vi. The Budget has also indicated that it is envisaged to establish a Fund-of-Funds which intends to raise <sup>1</sup> 2,500 crore annually for four years to finance start-ups – the corpus is of <sup>1</sup> 10,000 crore over four years. This will promote creation of start-up eco-system in the country.

## Incentives for Start-ups in the Union Budget 2017-18

The incentives announced in the Union Budget 2017-18 for the MSME sector, including innovative Start-up entities, combined with the entire windfall from demonetisation of high value currency, is expected to result in increased uptake, and could take the form of a credit bank for start-ups and other MSMEs. The incentives announced for start-ups in the Union Budget 2017-18 are as follows:

- i. 5% reduction in income tax to 25% for MSMEs with an annual turnover not exceeding <sup>1</sup> 50 crore, compared to 30% earlier.
- ii. The MAT (Minimum Alternate tax) credit entitlement, which has been extended to 15 years from the earlier 10-year period, will incentivise the credit availability to start-ups.
- iii. The requirement of a promoter's continuous holding of 51% for voting rights, under Section 79 of Income Tax Act, 1961, to carry forward the losses in the business, has been relaxed, subject to the original promoters of the start-up continuing to hold their shareholding in the venture.
- iv. The increased allocation towards funds such as M-SIPS (Modified Special Incentive Package Scheme) & Electronics Development Fund to <sup>1</sup> 745 crore in 2017-18 will benefit Internet- of- Things (IOT) start-ups.
- v. Investors and start-ups were hoping that angel investment tax would be scrapped. However, they were disappointed. The tax was removed in 2016, but only for eligible start-ups as approved by DIPP. This provision is being continued for the designated category, and not extended for others.

## 9. Start-up Opportunities

### 9.1 ISRO looks to Space Start-ups

Opportunities for start-ups can be identified in a number of directions, where the use of innovation-driven technologies is of high priority. One area is opened by Indian Space Research Organisation (ISRO). Biennial Space Conference and Expo was

organised by ISRO, in collaboration with Antrix Corporation, ISRO's commercial company, and other related organisations at Bengaluru during September 1-3, 2016. In the Space sector, the role of manufacturers in satellite-based programmes is being strengthened by inviting a number of space start-ups or entrepreneurs to develop space technologies, applications and products – even building small space craft and rocket systems. As the new face of an otherwise government-driven sector, start-ups hope to get a platform for themselves in this field. (**Source:** *The Hindu*, Vijayawada edition, August 24, 2016).

S. Rakesh, Chairman and Managing Director of Antrix Corporation outlined the scope for start-ups in the Space field as follows: In future, Space will have an increasingly large role to play in many areas in our lives. Space commerce is going to increase phenomenally, and India has all ingredients required to become a major Space player. But ISRO cannot do it alone; it is basically an R&D organisation. Industry should be able to play a major part in future, on the lines of the US or European space sectors. Some of the common satellite based technologies are DTH television, telecommunication, earth imaging disaster management, and farm advisory.

ISRO, he said, is looking at improving the role of established players who are already supplying systems and components to it, as also new entrants or start-ups that can get into a few activities that ISRO does at present. Technologies are available with ISRO, and are ready to be transferred to industry. New entrants need to discuss with ISRO personnel. He also mentioned a few areas where collaboration can be fruitful. Solar panels used to generate power on satellites will be needed in large numbers as small satellites are booming. Makers of commercial solar panel will need to step up to space grade. For start-ups, sensors can be a low cost entry point. On the larger side, ISRO has larger launch vehicles and high throughput satellites in the offing which need industry support. Start-ups should be ideally prepared to invest in all related areas.



## 9.2 Public Procurement Policy (PPP) 2012

Availability of sub-contracting option under public procurement policy can be used by Central Public Sector Units (CPSUs) to encourage procurement from micro and small enterprises (MSEs), even if they continue to purchase from large suppliers. Availing opportunities available from CPSUs for sub-contracting will ensure greater thrust on capacity building of the MSE sector. This direction encourages innovation and self sufficiency by participating in the programmes of the futuristic core sectors like Defence, Space, Railways, Mining, Automobiles, Renewable Energy, Nuclear Energy, etc. In Defence, large scale efforts are being made to indigenise manufacture of components. Creation of MSME (micro, small and medium enterprise) vendor base for the Defence Sector is being pursued by organising MSME-DEF-EXPO events and through B2B meetings. Organising vendor development programmes (VDPs) and special VDPs for specific sectors or CPSUs for facilitating MSEs in becoming part of the supply chain is being done regularly in different parts of the country by the National Small Industries Corporation (NSIC) and the MSME – Development Institutes under the Development Commissioner (MSME). NSIC offers single point registration system (SPRS) for increasing the supplier base through online registration. [www.nsicsprsonline.com](http://www.nsicsprsonline.com). E-procurement initiative of public procurement Cell of Department of Expenditure, Ministry of Finance, GoI has helped in greater transparency, and standardisation of the tendering process, all across the country. The vendors can access the opportunity through E-procurement process. It also helps procurement agencies in procuring items of their requirements at competitive prices. <http://eprocure.gov.in/cppp>. Offset Policy of the Government in case of procurement of the establishments of Defence, Space, Railways, and other CPSUs should give priority to MSMEs to act as vendors (*LUS* – July 2016).

GoI has notified Public Procurement Policy (PPP) for MSEs 2012 under MSMED Act 2006, which is effective from 1<sup>st</sup> April 2012. It is available on

the website of Development Commissioner (MSME) [www.dcmsme.gov.in](http://www.dcmsme.gov.in). Every Central Ministry / Department / PSU shall set an annual goal for procurement from the MSE sector at the beginning of the year, with the objective of achieving an overall procurement goal of minimum of 20 per cent of total annual purchases of products or services produced or rendered by MSEs from the latter in a period of three years. At the end of 3 years, the overall procurement goal of minimum 20% has become mandatory from 1<sup>st</sup> April 2015. Another provision in the policy is that 4% procurement (20% of 20%) is to be made from MSEs owned by SC / ST entrepreneurs. Non-conforming departments will be required to provide reasons for the same to the Review Committee set up under the Policy.

## 10. Private Sector Expertise for Incubators to guide and handhold Start-ups

To ensure professional management of government sponsored / funded incubators to provide necessary facilities for start-ups, Government will create a policy and framework for setting up of incubators across the country in public private partnership mode. The facilities to be provided in an incubator through industry – academia tie ups for nurturing innovations in academic institutions include physical infrastructure involving large capital investment for equipment, testing facilities and necessary buildings, provision of mentor support, access to networks, access to market, etc. Required skills for operating the incubator need to be developed by the private sector in collaboration with the host academic institution. As part of Atal Innovation Mission, funding of incubators will be planned by NITI Aayog. Government of India Ministries / Departments associated with the establishment of incubators include Departments of Science and Technology, Bio-technology, Electronics and Information Technology, Higher Education, Industrial Policy and Promotion (DIPP), and Ministry of Micro, Small and Medium Enterprises (MSME). The Ministry of MSME has promoted incubators at prestigious educational institutions as part of the National Manufacturing Competitiveness Programme (NMCP) in recent years.

Initial thinking was to establish incubators in collaboration with premier educational institutions in the country. These include IITs, IIMs, NITs, and other renowned specialised scientific and technological institutions. In earlier years, science and technology parks and a few incubators were set up under the sponsorship of Departments of Science and Technology and Bio-technology, and development banks such as Small Industries Development Bank of India (SIDBI). Experiences in these locations will be taken into account while promoting new incubators. There are a number of States and Union Territories not having these institutions. There is also a possibility and demand for locating more than one incubator in a State. The incubators can also be industry supported apart from academic institutions supported. The DIPP is of the opinion that experienced industry-linked Universities, engineering colleges and other specialised institutions can also be considered for locating the proposed incubators to spread the network to a number of states, and to a few prominent locations in as many states as possible. Faculty involvement of these institutions with appropriate expertise constitutes the base for selecting the thrust area for the incubator. Incubators need to co-opt experts in various areas of specialisation from nearby areas to cope up with the demand from prospective entrepreneurs.

Compliance regime based on self certification in respect of nine labour and environment laws will be adopted, and there will be no inspection during the first three years of the launch of the venture. Also a liberalised patent regime is being brought to help start-up businesses to register patents, for which the fee will be slashed by 80 per cent. Start-up India Hub facilitates creation of a single point of contact for the entire start-up eco-system, and enables knowledge exchange and access to funding. The Start-up India Hub will be a key stakeholder in this vibrant eco-system. It will work in a hub and spoke model, and collaborate with the central and state governments, Indian and foreign venture capitalists, angel networks, banks, incubators, legal partners, consultants, universities, and R & D institutions.

Start-ups will be supported for bagging government procurement contracts by waiving the criteria of experience and turnover. Notification has already been issued for this purpose. The Corporate Affairs Department promised that the Department is working on a software in which registration of new ventures would be made possible within 24 hours. On March 31, 2016, DIPP unveiled a start-up India portal, a start-up India Hub, and a mobile app, besides setting up a panel to verify the eligibility of start-ups to avail of benefits. These will facilitate registration of start-ups within a day through mobile app, and apply for clearances online. Faster exit by failed ventures with a provision for winding them up within 90 days has been proposed under the Insolvency and Bankruptcy Code passed by the Parliament in May 2016. (Details are given in Appendix III) The Bankruptcy Code will improve the ease of doing business in the country. A simple and effective insolvency law is important for expediting the winding up of a company, selling its assets; and also for revival of sick companies. Easier entry and exit norms are important for start-ups, as there is a likelihood of a number of them failing in view of the uncertainties the companies face. Innovation for start-ups can also mean in the areas of frugal engineering, using less energy, less water, and keeping the air clean.

The incubation centres in India have not only grown in numbers and geographic spread, but also in terms of creating a dynamic support system to foster entrepreneurship, enhanced levels of innovation, and employment generation. Requisite skills for operating an incubator and enterprise development need to be developed in higher educational institutions, Innovation and Entrepreneurship Development Centres, and other centres dealing with technology, and research and development. Prominent Technology Business Incubators established in the last decade and a half are: Technology Business Incubator at Delhi, SIDBI Innovation and Incubation Centre in IIT Kanpur, and Society for Innovation and Development at Indian Institute of Science at Bengaluru, which is one of the oldest institutions

in the country associated with entrepreneurship promotion. Most of the top Business Schools and technical schools offer entrepreneurship education in the form of short and long duration programmes. The IIT Madras Incubation Cell, called iCreate, consists of alumni dedicated to providing funding along with technical and business mentoring needed for a start-up to succeed. iCreate is an autonomous centre to facilitate a wide range of Next Generation entrepreneurs along with a vibrant eco-system.

Office of Development Commissioner (MSME) has been implementing a scheme, "Support for Entrepreneurial and Managerial Development of SMEs through Incubators," which is also an initiative towards 'Make in India' efforts. The main objective of the scheme is to promote emerging technological and knowledge based innovative ventures that seek nurturing of ideas from professionals beyond the traditional activities of MSMEs. Such entrepreneurial ideas need to be tapped, fostered and developed in a supportive environment before they become attractive for venture capitalists. Hence the need arises for incubation centres to promote and support untapped creativity of individual innovators, and to assist them to become technology based entrepreneurs. The incubational support will be provided by host institutions, such as prominent educational and research institutions. Financial assistance provided by the government is between ₹ 4-8 lakh per idea/unit (on an average ₹ 6.25 lakh per idea/ unit) limited to ₹ 62.5 lakh for 10 ideas/ units per host institution/business incubator per year. The contribution of the incubator towards incubation of new innovative ideas shall be 15% of the project cost for micro enterprises, and 25% for small enterprises. While submitting ideas for financial support, it should be borne in mind that the idea should have been developed and likely to be completed into a marketable venture within a year.

National Innovation Foundation (NIF) under the Department of Science and Technology located at Ahmedabad, helps grassroots innovators and outstanding traditional knowledge holders get due

recognition, respect and reward for their innovations. It also tries to ensure that such innovations diffuse widely through commercial and/or non-commercial channels, generating material or non-material incentives for the entrepreneurs involved in the value chain. Micro Venture Innovation Fund (MVIF) at NIF is in operation with the support of SIDBI to provide risk capital for entrepreneurs.

### **11. Building Innovation Centres at National Institutions**

To propel successful innovation through augmentation of incubation and R&D efforts, the Government plans

- a. to set up / scale up 31 innovation and entrepreneurship centres (to provide facilities for over 1200 new start-ups) at national institutes.
- b. Setting up 13 start-up centres with annual funding of ₹ 50 lakh (shared by DST and MHRD – Ministry of Human resource Development on 50:50 basis) for encouraging students-driven start-ups from the host institute.
- c. Setting up / scaling up 18 technology business incubators (TBIs) at leading educational institutes.

### **12. Setting up of New Research Parks**

Seven new Research Parks planned are modeled on the lines of the Research Park at IIT Madras with an initial investment of ₹ 100 crore each. These will be in IITs located at Guwahati, Hyderabad, Kanpur, Kharagpur, Gandhinagar, and Delhi, and Indian Institute of Science at Bengaluru. These will create a collaborative environment between industry and academia through joint research projects and consulting assignments.

### **13. Promoting start-ups in the Bio-technology sector**

The Department of Bio-technology endeavours to scale up a number of start-ups in the sector by nurturing 300-500 new start-ups each year to have around 2000 start-ups by 2020. The programme is

being implemented by the Department along with its public sector undertaking, Bio-technology Research Assistance Council (BIRAC). 5 new Bio-clusters, 50 new Bio-incubators, 150 technology transfer offices, and 20 Bio-connect offices will be set up in research institutes and universities across the country.

#### **14. Launching of Innovation Focussed Programmes for Students**

To foster a culture of innovation in the field of science and technology amongst students, a number of initiatives will be taken: (a) Innovation care to target school kids, (b) National initiative for developing and harnessing innovations (NIDHI) shall be implemented through Innovation and Entrepreneurship Development Centres. (c) Uchhattar Avishkar Yojana for fostering very high quality research among IIT students.

#### **15. Annual Incubator Grand Challenge**

To support creation of successful world class incubators in the country, and make them as role models for other incubators.

#### **16. DST's Initiatives in S&T led Entrepreneurship and Innovation Promotion**

The NSTEDB (National Science and Technology Entrepreneurship Development Board) of DST has taken several measures to foster and nurture innovation and entrepreneurship by scouting and supporting innovative ideas, implementing various institutional programmes, and organising capacity building programmes across the country. In addition, the Department has also played an active role in formulating and enforcing a few policy interventions for strengthening technology business incubators and their start-ups. DST and Ministry of Human Resource Development (MHRD), GoI have launched a joint initiative of promoting Start-up Ecosystem in national institutes of repute. DST has been promoting establishment of Technology Business Incubators, and MHRD has been establishing Research Parks in different parts of the country in association with reputed educational institutions. Under this joint initiative, it is proposed to establish a 'Start-up Centre', a 'Technology Business Incubator' or a

'Research Park' depending on the preparedness of the institution in commercialisation of technologies, supporting industrial research, and nurturing and mentoring start-ups. It is proposed that the Research Parks shall be funded by MHRD, TBIs by DST, and Start-up Centres shall be jointly funded DST & MHRD (on 50:50 basis). IIT Hyderabad and IIT Gandhinagar have been recommended for establishing Research Parks, 11 IITs/NITs have been recommended for establishing TBIs, and 10 IITs/IIITs have been recommended for initiating Start-up Centres. Over years, DST has established 90 TBIs and Science and Technology Parks (STEPs), and several of them have matured, and developed competence to become state-of-the art incubators. Incubators have become a key mechanism for spurring entrepreneurial culture in institutions, introduction of innovative technologies in Society, and contribution to economic growth and employment generation. (Source: *DST Annual Report 2015-16*, New Delhi)

#### **17. Stand-up India Scheme**

Under Stand-up India Scheme, greater emphasis will be on promoting entrepreneurship among women and SC/STs. The scheme's motive is to make youth job creators and not job seekers. Implementation of the scheme will lead to greater degree of inclusive growth. It is targeted that each bank branch in the country, particularly in rural and semi-urban areas, provides loan for at least two such projects in a year, one for each category of entrepreneurs. Provision of <sup>1</sup> 500 crore has been made in the Union Budget for 2016-17. The scheme will benefit at least 2.5 lakh entrepreneurs during 2016-17. The entrepreneurs can avail of the facilities offered under various schemes being implemented for skill development and entrepreneurship. While celebrating the 125<sup>th</sup> Birth Anniversary of Dr. B. R. Ambedkar, Government of India has declared 2016-17 as the year of Empowerment of SC/ST entrepreneurs. A National Scheduled Caste and Scheduled Tribe Hub has been created in the National Small Industries Corporation (NSIC) in partnership with industry associations. This Hub will provide professional



support to SC/ST entrepreneurs in a number of directions to adopt global best practices.

Under MUDRA Yojana, loans up to ₹ 10 lakh will be granted to SC/ST and women entrepreneurs to set-up their businesses on hassle free terms. The overall intent of the scheme for underserved sections of the population is for facilitating bank loans repayable up to seven years, and between ₹ 10 lakh to ₹ 100 lakh for green-field enterprises in the non-farm sector by such SC/ST and women borrowers. MUDRA Bank (Micro Units Development and Refinance Agency Bank) started in April 2015 offers loans under three categories – shishu for loans up to ₹ 50,000 for start-ups; Kishor with above ₹ 50,000 and up to ₹ 5 lakh for mid-stage needs; and Tarun – with above ₹ 5 lakh up to ₹ 10 lakh for growth seekers.

The Bank gives priority to sanctioning loans in the shishu category, as it primarily deals with new micro enterprises. The other schemes are oriented towards expansion of projects and in a limited way for bigger new projects. The bank is visualised as a boon to small business enthusiasts, particularly in rural and interior parts of the country. MUDRA card and credit enhancement are on the anvil for inclusion later. The Bank has been created with a corpus of ₹ 20,000 crore, and a credit guarantee fund of ₹ 3,000 crore. It functions as a subsidiary of SIDBI (Small Industries Development Bank of India).

In order to foster smooth implementation of Stand-up India scheme, SIDBI developed a web portal, [www.standupmitra.in](http://www.standupmitra.in) which is designed to obtain application forms, provide information, enable registrations, provide links for handholding, tracking, and monitoring. This will enable the entire banking system to fulfil the intended objective of providing bank loans between ₹ 10 lakh and ₹ 1 crore to at least one SC or ST borrower and at least one woman borrower per bank branch in a year for setting up a green-field enterprise. This portal acts as a loan market place for application filing and tracking as well as providing the facility for choice of branches/banks for credit assistance. (Source: SIDBI Annual report 2015-16, Lucknow)

## 18. Progress of Incubators in Andhra Pradesh

The vision of the new Innovation and Start-up Policy of Government of Andhra Pradesh for 2014-20 reads as follows:

“To create ‘a world class technology Start-up ecosystem’ by fostering entrepreneurship and a culture of innovation’ which contributes to increased knowledge, wealth and employment in our society.”

In line with the decision at the national level declaring 2010-20 as a Decade of innovation, Andhra Pradesh Government has set up an Innovation and Capacity Building Mission for implementing the policy of Re-imagining Andhra Pradesh - role of e-governance, Electronics and IT (available on [www.ap.gov.in](http://www.ap.gov.in)). The government aims to make at least one person e-literate in each household. Through this policy; the state intends to create an ecosystem that produces entrepreneurial culture in every family developing the following facilities to produce the desired results by June 2019 (available on [www.ap.gov.in](http://www.ap.gov.in)).

- 100 incubators/accelerators to be established
- 5,000 companies/ Start-ups to be incubated
- one million sq feet of incubation space is to be developed
- Venture capital of ₹ 1,000 crore (₹ 10 billion) to be mobilised for innovation
- Foster innovation culture
- Create at least one home grown billion dollar technology Start-up.

The niche Themes being considered as focus areas are as follows:

- Internet of Things (IoT)
- ‘IT for X’ in the areas of pharma, oil & gas, and urban management
- Social media, mobility, analytics, and cloud computing (SMAC)
- Fables Semi-conductors
- Animation & gaming
- Entertainment
- Visual effects
- Health and fitness
- Automotive

The new policy of innovation would base itself on five pillars, *viz.*, shared infrastructure, accelerators / incubators, human capital, funding, and above all, a system of governance (state support). The government shall establish at least one world class Accelerator/Incubator by inviting global accelerators / incubators to introduce their programmes in the state. It will also support the establishment of small accelerators/incubators in multiple locations in the state (see Appendix 1). Through industry - academia collaboration, these institutions will develop trained manpower in emerging technologies to promote innovators and techno-preneurs among the youth.

The government shall develop physical incubation infrastructure through Public-Private-Partnerships. A new incubation infrastructure fund will be set up under the innovation Mission as a revolving fund that provides conditional grant for special purpose vehicle (SPV), promoted by the host institute of Technology Business Incubator, and approved by National Science and Technology Entrepreneurship Development Board (NSTEDB), Department of Science and Technology, Government of India. Innovation and Transformation Academy will be set up for fostering innovation in the state. Through leadership and entrepreneurship training programmes, entrepreneurship culture will be institutionalised in different parts of the state. An initial innovation fund of <sup>1</sup> 100 crore (<sup>1</sup> one billion) will be created for entrepreneurs and businesses. The fund will be in the nature of fund of funds. It does not invest directly into start-up companies. It shall participate in the capital of Securities and Exchange Board of India (SEBI) approved venture capital (VC) funds, up to 15% as a limited partner. The VC fund in turn is free to invest in start-ups located in different parts of the state, based on their appraisal criteria. The fund will also support a number of activities in this programme including establishment of pilot incubators.

The other important contribution of the state government is to offer non-fiscal and fiscal incentives to start-up entities. A highly empowered

single window clearance unit will be created and operationalised for granting approvals and clearances to primarily first time and young entrepreneurs. Andhra Pradesh Innovation Council would be formed. Apart from incentives normally available for micro, small and medium enterprises, special incentives will be made available for IT and other specialised categories of enterprises, taking into account their needs. Women and SC / ST entrepreneurs will be given additional incentives. IT units in rural areas will derive special advantages. For various product groups, based on the nature of activity, tailor made facilities and incentives will be offered.

Progress of implementing the IT policy for start-up companies in the IT and IT enabled services and allied sectors in Andhra Pradesh is briefly reviewed here. Locations identified for incubator towers are Visakhapatnam, Kakinada and Tirupati. Incubator towers are already commissioned. Visakhapatnam has two towers, and Kakinada and Tirupati one each. In Visakhapatnam, incubation tower at Rushikonda built by Andhra Pradesh Industrial Infrastructure Corporation (APIIC) started functioning from December 2014 under the guidance of Kochi (Kerala) based pilot incubator Mob Mee start-up village which pioneered the start-up concept. In Kakinada where the incubation tower is operating under the guidance of the Bhubaneswar based private pilot incubator KIIT-TBI, 25 start-up companies have started functioning. Tirupati incubation tower with 15,000 sq.ft is functioning under the guidance of the pilot incubator Venus Geo.

A start-up unit comprising fresh and final year engineering graduates will take on an average about two years to work on their product and idea before it can attract the attention of venture capitalists and angel investors. While three companies are ready for tie-ups with start-up units in Visakhapatnam incubation tower, AP government which invested on incubation towers has placed a condition that the mature start-ups should base their companies in the state whoever might be their venture capitalist.

The mandate of the empanelled incubators is to promote the culture of innovation among the start-up units while the state is looking at creating a world class eco-system, and lay strong foundation to make a mark in IT product development. Recently, Intel and C-Dac organised training programmes for the start-ups in Visakhapatnam working on ideas and products related to their domain expertise. The government has also been extending some financial assistance to the pilot incubator on behalf of each start-up unit for organising training programmes, and promoting the products and ideas once they reach a certain stage of development to attract venture capitalists and angel investors. The Rushikonda facility is known as Technology, Research and Innovation Park. In Visakhapatnam, another five-floor tower, named as Millennium Tower of three lakh sq. ft. space will come up on a four-acre land adjacent to the Rushikonda Incubation Tower. The first two floors will be for start-up units, and the other three floors will be allotted for companies.

## 19. Conclusion

The article presents the directions to be pursued for two innovative programmes in entrepreneurship development, viz., Start-up India and Stand-up India, as complementary to the Make in India campaign. The first refers to innovative entrepreneurship based on research and development, and experiments carried out in technology business incubators, with the support of a host institution. The second refers to inclusiveness of promoting entrepreneurship among women, and SC/ST candidates, in particular, in rural and semi-urban areas, and remote and less developed regions. In the context of Start-up entities as per the definition specifically spelt out for availing fiscal, financial, and other incentives and benefits, entrepreneurs should develop the products and processes, experiment on a smaller or laboratory scale, and be prepared to face high risk, before launching a product on commercial scale. In view of the high risk involved, angel investors and venture capitalists support such ventures, and government extends support in various ways. Conventional loans from

development and commercial banks can be utilised after the enterprise is reasonably well established. Apart from supporting research and development, and early entry and early exit, and creation of liberal eco-system, establishment of fund-of-funds for providing equity, quasi-equity and development loans on relatively soft terms are important roles of the government. Fund-of-funds created for different product groups is utilised for extending loans to venture capital companies to enable them to meet the equity and developmental loan requirements of Start-up entities. Opportunities available from sectors such as Space, Defence, Railways, Renewable energy, and Nuclear Energy need to be utilised by the youth to promote risky Start-up entities. Public Procurement Policy is another direction for registering themselves as vendors to Central Public Sector Units for availing the benefits. Strategies outlined are essentially through technology business incubators and research parks promoted in collaboration with leading educational and scientific research institutions. Joint efforts of Industry and Academia, with the appropriate eco-system and support created by the government can pave the way for more enlightened entrepreneurship to ensure the success of start-ups.

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# FINANCIAL LITERACY AND STABILITY OF THE FINANCIAL SYSTEM

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## ABSTRACT

*The aim of the author of this paper is to show the relationship between the levels of financial Literacy of individuals and company's managers and the stability of financial markets, asset markets and the stability of the financial system as a whole. In post-conflict Bosnia and Herzegovina (BiH) economy was "struck" by foreign banks and financial capital that has swept the local public "hungry" for loans but also under-educated in the financial sense to borrow and use borrowed funds more effectively and accept tolerable burden of debt. Financial illiteracy and the willingness to accept the conditions imposed by banks have led to difficulties in servicing obligations and deteriorating loan portfolio of banks. In such circumstances, the onset of the financial crisis has brought something positive. The trend of rapid borrowing of citizens and companies in BiH was abruptly cut, but on the other hand problems with servicing the loan already taken simultaneously arose. The problems are still not dramatic but it should be noted that problems in the banking sector come to the surface only after one and a half to two years after the crisis. The author believes that a more serious approach to the financial literacy of citizens and managers and owners of small businesses is crucial, not only for the economy as a whole but also for the health of the banking system or financial system of the country.*

**Keywords:** *financial literacy, financial culture, bank client's financial behaviour, nonperforming loans, financial system stability.*

## 1. INTRODUCTION

General financial literacy of the population as a whole in terms of the Bosnia and Herzegovina (BiH) economy is of great importance because wider population appears as active participants in financial market. Neglecting the components of the broader financial literacy can cause serious problems ranging from inefficient operation of financial markets, adverse panic and financial crisis, financial market instability (euphoric behaviours in investment and sudden exits from the market), inadequate risk perception and poor choice of investment options. Illiterate consumers are prone toward easily accepting adverse conditions related to financial arrangements. They show preference to acceptance of various scams (pyramid saving modes, etc...) which are based

precisely on the financial illiteracy of the population. Financial education in Bosnia and Herzegovina has practically only begun to be studied at the faculties of economics (except for the high schools of economic orientation). In the developed world, financial education is a part of the necessary knowledge at least on a basic level. It is necessary for "normal life". In any case, in BiH it has not yet been adequately perceived as a necessity because, given the long tradition of nonmarket systems and habits thereby established, the awareness of the changed environment has not still taken root. Old habits and value systems are colliding with the new standards, and now with

the privatization and earning orientation come to the fore. In the minds of people there is still confusion on many issues and they make big



mistakes when making financial decisions, both personal and in business, which ultimately threatens the stability of the financial system.

## 2.IMPORTANCE OF FINANCIAL LITERACY

Recently, in addition to issues of education and greater sophistication of bankers, brokers, analysts, portfolio managers or specialists in risk management and the importance of their attributes for the development of financial markets and overall economic development, special attention should be paid to issues of financial education and literacy for all savers and investors and wider population who basically determine the overall benefits of financial development and risk diversification.

Here is one definition of financial literacy (Vitt et al, 2005.): “Personal financial literacy is the ability to read, analyze, manage and write about personal financial conditions that affect material well being. It includes ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.”

The term “financial literacy” should be linked to the concept of financial intelligence with wider use in popular literature. It is important to point out that financial intelligence is “an innate ability” that you have or do not have, “a set of skills that can and must be learnt”. These are the skills that must be held by all those who want to run their businesses successfully and to be able to follow and understand what the financial world is speaking (Berman & Knight, 2007, p. 9). They must be able to read balance sheets and financial statements of companies and financial institutions and to literally understand their mutual relations and influences.

The fact that a large percentage of the population is financially illiterate is widely observed in developed countries. Consequences are a very bad position of consumers of financial services, which

causes problems in the financial sector. Many citizens in the U.S. for example do not have a bank account. Most borrowers are unaware of the real burden of flexible interest in contract to purchase real estate, houses and flats on the basis of the mortgage (subprime borrowers). The fact is that more educated people are also financially more literate (Hoghart, 2007). Financial education is, as pointed out by Bernanke (2006), a very important part of effective financial market but not a *panacea* because it cannot replace a wise regulation, clear procedures for closing businesses, and preclude the providers of financial services to engage in unfair or illegal activities. We should not forget that many financial decisions are motivated by irrational reasons while Thaler from University of Chicago (The Economist, 2008, p. 72) believes that financial literacy is impossible. This is about the other issues of human behaviour in the financial world.

This is a behaviour that is not always driven by rational motives and reasoning so it often leads to bad financial decisions. Faced with economic uncertainty behaviour is largely driven by behavioural means and raw emotion (“animal spirits”) which can rapidly and sharply deviate from the behaviour in the past (Akerlof & Shiller, 2009).

Psychological factors that lead people in decision-making should be separate from the education of the people because in real life they are constantly faced with rational decisions where financial education can help.

The problem of financial education particularly appears with people with less financial strength. This education is necessary for children and adults. In societies where personal savings are neglected financial education has special importance. Thus, for example in a recent World Bank study it is estimated that many families in Bosnia after a wave of intense borrowing are threatened with bankruptcy. It is estimated that almost 74 % of households spend at least 20 % of their revenue for the repayment of loans given to them. Even 59 % of indebted households allocate more than 30

% of monthly income for the repayment of the loans. Problem is that BiH has no possibility of personal bankruptcy as U.S. where, for example, there exist credit advisors who advise before bankruptcy or alternatives to bankruptcy<sup>1</sup>. This education needs to provide positive financial behaviour of individuals, to direct and provide orientation in a complex financial environment, which includes provision of loans, savings, maintaining adequate levels of insurance and avoiding unscrupulous financial firms (Parrish & Servon, 2006). Researches in the U.S. show a very different financial behaviour of households (Hogarth, Beverly & Hilgert, 2003). The only variable which consistently affects the behaviour in financial management is financial knowledge and experience. The implications are that increasing the knowledge and experience can lead to improved financial behaviour. Improvement of knowledge is achieved by additional education although it is only one mechanism to influence behaviour. The authors consider that "one size fits all" and "one delivery techniques fits all" approach was less effective than more targeted, tailored approaches. Numerous studies have shown that Americans have inadequate knowledge of personal finance (Chen & Volpe, 1998). They fail to make correct decisions because they have not received a sound personal financial education. The survey of financial literacy among college students in the U.S. show that only 53 % of students gave the right answers. It was noted that even students of business studies in the United States are not obliged to take courses in personal finance (Bialaszewski, Pencek & Zietlow, 1993). Of course, the students

- 1 The members of National Foundation for Credit Counseling (NFCC) are oldest nonprofit network of agencies for credit counseling. The agencies provide the budget review, education, advice, possibly referrals to social –service agencies or other institutions to solve specific problems, and recommendations for specific changes in the client's behavior. (Staten, Elliehausen & Lundquist, 2002). and their youth do not allow them to enter "significantly" in the financial sphere. Elderly

students are better versed in financial matters. Students who study economics and related disciplines are better informed than students in other studies (Chen & Volpe, 1998, p. 114). Experimental studies show that financial education only is not enough unless it is supported with advice when making financial decisions. Education and consulting are complementary and not substitutes (Carlin & Robinson, 2010). Over half of employees in the U.S. participate in some programs of financial education. In most cases they learned about the importance of saving and investment from the retirement schemes programs.

In BiH, there is a systematic lack of financial education and this has consequences not only at the individual level, but it has a direct impact on the functioning of the financial system as a whole. Own survey of the author of this paper conducted by the students of economics at various locations in the Republic of Srpska (Pale and Bijeljina) indicated that the vast majority of students, even though they are studying economics, are practically financially illiterate<sup>2</sup>. As it might be expected the situation is even worse for students in other degree programs. Nowhere at the universities in BiH there is a subject or a scientific discipline related to personal finance.

People who have already stepped into the working world also have weak financial literacy. It is reflected in a priori and non-critical, "heedlessly" accepting all the conditions offered by banks. There is a lack of informing and researching of conditions offered by competing banks. It can be sometimes explained by the need for credit, and sometimes perhaps the conscious acceptance of adverse conditions following the credit contract because of the need for funds. It is recognized as phenomena "*unconsciousness of costs*" and "*interest insensitivity*". The programs of financial education organized by the commercial banks are very rare and sporadic. After the problems in the banking sector this needs to be seriously taken into consideration. General euphoria and the expansion of bank credit, asset prices and performance of foreign investors (mostly from the region) on the

stock exchanges in BiH, had to feed small domestic financially illiterate investors in the stock exchange. Many “outsiders” were buying on the stock exchange contrary to the logic of buying when it is cheap but they invested with the highest prices. In one moment literate insiders withdraw and small outsiders experienced shooting of a classic bubble and the losses. So the stock exchanges in BiH operated on the principle of Ponzi financing scheme which will extend the time of its taking on the role it should have in the funding.

- 2 And respondents have an awareness of currency risk but not a strong preference for borrowing. The respondents would take loan only in ultimate need. They perceived the importance of own creditworthiness. About 80% do not know what EURIBOR is. They show a very high preference toward saving and productive investment that would be expected of future economists. The 66% of respondents would invest their own savings in a number of alternative options which is evidence of risk awareness and understanding of the importance of investment diversification. Just about 6% of them would invest their savings in the bank. Only 27% know that the small bank deposits are insured by the Deposit Insurance Agency of BiH.

Financial ignorance provides very fertile ground for the existence of fraud schemes such as

pyramidal savings that are apparently eternal<sup>3</sup>.

### 3. BANKS CREDIT POLICY

Since 2000, the domestic market has been “hungry” for loans and there was a sudden and large expansion of bank lending to households and the economy<sup>4</sup>. Large demand for loans from the banks provided that they are more comfortable when contracting loans in the sense that they themselves allowed interest rate changes according to their “needs”. Banks are often increasing interest up but not the other way down. Interest rates in domestic banks were sticky or rigid in their way down. Credit activity was reduced in the first half of 2011. The profitability of banks has

significantly reduced. Several banks in Bosnia and Herzegovina have made massive losses the consequence was that the banks increased interest rates acting in this way pro-cyclically, thus making the way out of the recession difficult.

It is somewhat paradoxical that the interest rates on loans (short and long term) indexed in

foreign currency have been in average higher in every month since 2007 than interest rates on

loans in local currency. This applies to loans to business enterprises and the difference is even

higher for loans to citizens. This difference at some point is 1.55 percentage points. Currency

clause is included in the loan agreement, although Bosnia and Herzegovina has a currency board system and although the rate of local currency is fixed to the euro (by Law) which is guaranteed by the Central Bank of BH. This indicates the distrust of banks in the currency board system. In this way the risk of the exchange rate switches to the final users of credit for what these latter ones obviously do not enjoy any risk premium in the form of lower interest rates. It seems that users of loans do not negotiate the terms of loans, but the loans are used mainly in principle to “take it or live it” in relation to the conditions offered by the bank.

What is the domestic banking market like, can be illustrated by the example of Pale. It is a center of municipality close to Sarajevo. Municipality is populated with 30,000 inhabitants. Ten different organizational units of banks operate in Pale concentrated in a radius of 500 meters. A large number of banks, side by side, offer the same types of loans under dramatically different conditions. For example: loans in cash up to 5 years are offered mainly with flexible interest rates (EURIBOR plus a bank margin). Even though the short-term loans are generally indexed in foreign currency, the biggest differences are manifested in terms of interest rate. Two different banks located next to each other offer a dramatically different rate for the same type of loan. In one, the interest rate is 8 % with 1 % of compensation for the cost of processing a loan application and with another

bank it is 14.77 % (effective). It is a difference of nearly 50 %. The first bank has no penalties for early repayment of a loan while with another bank these penalties

- 3 That type of scam is apparently always present in these regions and in isolated enclaves there appear firms that "act as" agents of Foreks" (in Serbia savings over the "Elite International", which damaged people by more than 50 million euro). Investments in fraudulent investment funds based on Ponzi schemes. There is also multilevel marketing. All this is going on due to financial ignorance of victims and warm state action.
- 4 Because of the perception of risk investment in the domestic market, banks accrue interest margin significantly so in 2010 interest margin or the difference between the lending rates of commercial banks in and the twelfth month

EURIBOR was 7,01 percentage points (Bulletin of Central Bank of BiH, No.3.2010, p. 70).

117 amount to 2 % and with some other even to 5 %. Banks offer different conditions for their clients and for those who are not (do not receive their salary through the bank for example) attaching to credits, for example, insurance and similar that carry additional costs for the borrower. The conclusion is that although there are so many banks in the small area they are not competitive. Otherwise, the terms and conditions of loans would be fairly uniform, which is not the case. Since the same bank offers very different conditions in Pale, then the situation is similar in the wider area. One important reason is the ignorance of customers of different conditions of the loan and their "insensitivity" to the cost of the loan. Customers are not aware that the credit terms can be negotiated. In direct communication with the bank loan officers the author of this paper saw that it was possible to negotiate. Customers generally take credits with "their bank" regardless of the conditions that the bank offers.

Customers are not aware of standard currency risk (which is equally present in BiH in terms of other

currencies other than euro), while the banks obviously do not "believe" in the stability and durability of the currency board and fixed exchange rate and domestic currency against the euro which has been in force in BiH since 1997. That customers are not interested in a more favourable credit terms is shown by the fact that to our public notice on credit counselling services (assistance in choosing the best credit conditions) there was not a single response<sup>5</sup>.

#### 4. NON PERFORMING LOANS

After coming of the financial crisis and recession it can be expected to have deterioration in the bank asset quality. Lending activity is largely reduced due to reduced demand and harder conditions for lending. The growth of bad assets in BiH ("nonperforming loans") was not of concern in the midst of the crisis, but experience from the past crises tells us that the problems arise mainly with the time lag. It can be seen in BiH and in the region, where the growth of bad assets is quite noticeable and quick. According to reports from the Central Bank at the end of 2010, banks in their portfolios have about 10 % of non-performing loans to total credit portfolio. In the Republic of Srpska 15 % of the loan portfolio of enterprises are bad loans (categories C and D). It is predicted that the bad loans will have even greater share in the near future. Companies in BiH do not return the loans in 11.7 percent of cases. At the same time 6 % of household users of credit do not repay loans. In 2010 the number of credits that cannot be repaid was doubled.

The crisis was only partly the cause of the problem. This account does not include only the outstanding credits, but also those whose return was prolonged. Companies complain about the high interest rates while the bankers come with complaints of bad business plans and actions of businessmen. Key problem is that businessmen borrowed funds based on the reckless business plans and use of borrowed funds out of business purpose buying expensive cars and luxury consumer goods. Although there are no studies on this subject and it is difficult to argue this<sup>5</sup> A large number of citizens in BiH are incapable in terms of credit criteria of commercial



banks, which has influenced the dynamic development of microcredit institutions in BiH that by the number of loan accounts even surpass the number of loans approved by banks. The effective interest rates in these organizations range from 22.94% for housing loans up to 38.99% per annum for non-purpose loans. Ignorant users and their expressed need for loans led to the indebtedness of borrowers with micro-credit organizations and losses for these institutions. claim, the fact is that the companies established after the conflict in BiH, are young companies with no business history and with a poor business reputation. Owners of small and medium sized companies are usually also the owners and managers of their companies. Plenty of companies were established on the basis of dubious privatization, through the interface with politics and they often lack the business approach inherent to a competitive business environment. Certainly, the financial education and literacy of such entrepreneurs is low when accepting expensive loans and inappropriate use of borrowed funds. In addition, moral hazard was present in some banking circles (the cases of Hypo Alpe Adria Bank, state owned Development Banks and others).

## 5. CONCLUSIONS

The thesis of this paper is that the financial literacy of the population of each country is crucial for the well-functioning of the financial system and thereby the economy as a whole. Situation in this field in BiH is very bad. It is especially emphasized by the sudden entry of people into the financial system with market rules with inadequate institutional environment. Financial literacy is the primary interest of the customers of banks, because, as we have seen, efforts by banks to switch the risk to the users of banking services can ultimately lead to the spread of problems of the borrower as a boomerang back to banks. Financial literacy of the population is the public interest because the adequate behaviour of users of financial services increases the stability of the entire financial system and economy as a whole. Mass errors in any personal financial management

or finance companies ultimately undermine the financial system and economy.

There is ample room for financial education of the population and financial managers in which it is easy to find place for professional educators, banks and international financial institutions. We tried only discreetly to address the topic of financial education of wider groups of people whose lack of education and financial incompetence can lead to significant problems in their personal level as well as problems in the financial sector as a whole. There is a largely unexplored area of this problem that has not yet been adequately perceived or investigated by the management structure and policy makers and other interested parties in the country and it have to be devoted much more attention in the future. Financial literacy and education is the interest of educators, community groups, businesses, government agencies, organizations and policy makers. Central activities related to education of a wider population could be handled by the Central Bank that would provide incentives for commercial banks to engage in these activities, ranging from the introduction of courses for children up to the wide form of activity. In this way it would be ensured that over time people become aware of the increased costs of using credit cards, problems arising from excessive debt, they would take care of their own retirement (the introduction of private insurance) and the importance of insurance schemes. This should raise awareness on the importance of savings and what it promotes. It should help them in investing their savings and have protection against risk. It concerns the wider public interest and the efficient protection of the domestic financial system which would be less exposed to volatility resulting from incompetency and irrational behaviour of consumers of banking and financial services. It is true that the Central Bank pays particular attention to education and training of its employees, however, it misses its engagement in the broader education of the population where it could have a catalyst role to guide and encourage financial institutions to engage in the education system and inform the population about financial services and opportunities, risks, savings and various forms of

investments that are offered on the domestic market. On the other side, the Central Bank would have to have a greater impact on decision rules and regulations that to a large extent protect the rights of consumers and consumers of financial services because they are sometimes exposed to inadequate offering of banking services.

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# Osmania Journal of International Business Studies (OJIBS)

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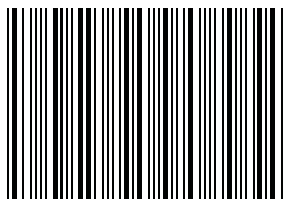
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