# MICRO, SMALL & MEDIUM ENTERPRISES (MSMES) IN INDIA:CHALLENGESAND OPPORTUNITIES

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**Abstract**

The Small Scale Industries (SSI) has been renamed as Micro, Small and Medium Enterprises (MSMEs) with the introduction of MSMED Act, 2006.**The Micro, Small & Medium enterprises (MSMEs) has often been termed as 'engine of growth' for all developing economies including India. MSMEs have been playing a momentous role in overall economic development of a country like India where millions of people are unemployed or underemployed & facing the problems of poverty.** It also plays a key role in the development of the economy with its effective, efficient, flexible and innovative entrepreneurial spirit. The current paper is an attempt to critically analyze the definitional aspect of MSMEs and explore the opportunities enjoyed and the constraints faced by them.

**Introduction**

The Micro, Small & Medium enterprises (MSMEs) is one of the most vital sectors of any economy in general and India in particular in ensuring euitable, inclusive & employment friendly economic growth. The contribution of the Micro, Small and medium enterprises (MSME's) to the economic growth of a nation is well recognized. Prime Minister Dr. Manmohan Singh stated, "The key to our success in employment lies in the success of manufacturing in the small scale sector." MSMEs have a place of pride in Indian economy. The growth rate recorded by this sector has normally been higher than that of the industrial sector as a whole. The small scale industrial sector has emerged over five decades as a highly vibrantand dynamic sector of the Indian economy.

**Definition of MSME's In Indian Context**

There is no universal definition of small and medium enterprises. MSME's are defined in different ways in different parts of the world. Some define them in terms of assets, while others use employment, shareholder funds or sales as criteria. Some others use a combination of revenue and employment as a hybrid criterion. Small enterprise was expanded to include a two categoryClassifications-

**A. Manufacturing Enterprises**

The Enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation Act 1951) the manufacturing enterprises are defined in the terms of investment in plant and machinery.

**B. Service Enterprises**

The enterprises engaged in providing or rendering of services and are defined in the terms of investment in equipment.

The limit of investment in plant and machinery/equipment for manufacturing and

Service Enterprises as notified.

TABLE 1 : MANUFACTURING SECTOR

| Enterprises | Investment in plant & machinery |
|---|---|
| Micro | Less than Rs 25 lakhs |
| Small | Over Rs 25 lakhs but not exceeding Rs 5 Crores |
| Medium | Over 5 Crores but less than Rs 10 crores |

TABLE 2 : SERVICE SECTOR

| Enterprises | Investment in Equipments |
|---|---|
| Micro | Less than Rs 10 lakhs |
| Small | Over Rs 10 lakhs but not exceeding Rs 2 crores |
| Medium | Over Rs 2 crores but not exceeding Rs 5 crores |

**Some Highlights Of The MSME Sector**

a) MSMEs contribute about 40% of India's total exports.

b) MSMEs contribute about 45% of India's manufacturing output.

c) This sector has given employment to 73 million people.

d) MSME manufacturesmore than 6,000 products.

e) MSMEs is the backbone of GDP in India. Their contribution to GDP is 8%.

**Problems Faced By Msmes In Indian Economy**

The small and medium scale enterprises are suffered with many severe problems, which are mainly depending on the level of economic and social development of the country. India as a developing country is not an exceptional one to the above condition. Though, there are unlimited problems connected with MSMEs, some of them are given below.

1. High cost of credit.
2. Limited capital and knowledge
3. Lack of access to global markets.
4. Non-availability ofsuitable technology.
5. Low production capacity.
6. Problems of storage, designing, packing and product display.
7. Absence of adequate and timely banking finance.
8. Ineffective marketing strategy.
9. Lack of skilled man power for manufacturing, services,marketing etc.
10. In adequate infrastructure facilities, including power,water, roads.
11. Constraints on modernization of expansion.
12. Competition with imported products.
13. Under capitalization and bureaucratic red tapism and regulations.
14. Lack of industrial training & skill formation.
15. Lack of quality control &testing facilities.

**Opportunities in MSMES**

1. Flow of foreign investment and technology.
2. Emerging areas of business.
3. Less capital intensive.
4. Globalization.
5. Less Govt. Intervention
6. Better performance by the MSMEs
7. Short and long term capital
8. Export contribution
9. Removal of Regional disparity
10. Better industrial relations
11. Employment generation
12. Trade fares and exhibitions
13. Procurement of machinery and raw material

**Conclusion**

MSMEs, as a major contributor towards growth of domestic economy andemployment generation, should get adequate support in terms of policyframework, incentives and other relevant aids. MSMEs will continue to play a very important and vital role in our economy . But there are several challenges in the sector of MSMEs. If the Government, Bank and Financial Institutions will take proper initiatives in the sector of MSME and they will take pride while servicing the MSMEs, these challenges can be solved.

To face the competition in the long run and to be economically viable, the MSME sector needs to improve its productivity and quality, reduce costs and innovate. Government policy should promote MSMEs by helping them to increase their efficiency and competitiveness within a market driven economy. In order to prevent the major sickness in MSME sector, new approacheslike the cluster approach or harnessing the power of industry associations should be encouraged. Undoubtedly theMSME sector has enormous potential, and is a crucial aspect of the Indian economy. However it is essential onthe part of the government to take careful decisions and honest policy implementation to overcome the problemsof MSME sector. A technologically vibrant, internationally competitive small and medium industry should beencouraged to emerge, to make a sustainable contribution to national income, employment and exports. It isimperative to take care of MSME sector to enable it to take care of the Indian economy.

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# FDI'S CONSEQUENCES ON INDIAN RETAIL SECTOR

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IJMR
ISSN : 2321-1709
Vol. 1 No. 1

**Abstract**

In the past decades, FDI was concerned only with highly industrialized countries. The US was the world's largest recipient of FDI during 2006 with an investment of 184 million from OECD (Organization for Economic Co-operation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investments. FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. FDI also plays a vital role in the up-gradation of technology, skills and managerial capabilities in various sectors of the economy. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market. This research paper put emphasis on the impact of Foreign Direct Investment (FDI) on the growing retail market in India. This paper also attempts to analyze the significance of FDI whether it is good or bad for Indian retail sector.

**Keywords:** Retailing, Foreign Direct Investment, Emergence, FEMA, Policy, Organized Retailing.

1. Introduction: Foreign Direct Investment (FDI) in India:-

Foreign direct investment (FDI) in India assumed critical importance due to the liberalization of trade policies which has led India to become an investment friendly country. Though India is the 10th most industrialized country in the world, it is well known that it is mainly agro-based with around 70% population engaged in the farm sector. However, in the initial stage of liberalization, FDI was centered on the urban manufacturing sectors because of its civic infrastructure, labor availability, flexible taxation mechanism etc. Now FDI also cover the rural area through its expansion policies.

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction

activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI.

FDI in 2010 was $24.2 billion, a significant decrease from both 2008 and 2009. Foreign direct investment in August 2010 dipped by about 60% to approx. $34 billion, the lowest in 2010 fiscal, industry department data released showed. In the first two months of 2010-11 fiscal, FDI inflow into India was at an all-time high of $7.78 billion up 77% from $4.4 billion during the corresponding period in the previous year i.e. 2011.

2. Concept of Retailing:

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. Retailing is one area of the broader term, e-commerce. Retailing is buying and selling both goods and consumer services.

In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). A sale to the ultimate consumer.

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

2.1 Structure of the Retail Industry: The structure of the retail industry is mainly divided into two parts:-

1) Organized Retailing
2) Unorganized Retailing

1. Organized Retailing: - Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

2. Unorganized Retailing: - Unorganized retailing refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after

agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

3. FDI's emergence in Indian Retail Sector:-

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) passed in the winter session of Parliament in 1999 replacing Foreign Exchange Regulation Act (FERA). The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

India has kept the retail sector largely closed to outsiders to safeguard the livelihood of nearly 15 million small store-owners and only allows 51% foreign investment in single-brand retail with prior Government permission. FDI is also allowed in the wholesale business. Single-brand retailers such as Louis Vuitton, Fendi, LLadro, Nike and Toyota can operate now on their own. Metro is already operating through the cash-and-carry wholesale mode.

The policy makers continue to explore areas where FDI can be invited without hurting the interest of local retail community. Government is considering opening up of the retail trading for select sectors such as electronic goods, stationery, sports goods, and building equipment.

The policy of permitting 51% FDI in single-brand product retailing has led to the entry of only a few global brands such as Nike (footwear), Louis Vuitton (shoes, travel accessories, watches, ties, textiles, ready-to-wear), Lladro (porcelain goods), Fendi (luxury products), Damro (knock-down furniture), Argenterie Greggio (silverware, cutlery, traditional home accessories and gift items) and Toyota (cars), into retail trading. A 12-billion Euro French luxury industry is also eyeing the domestic luxury segment to make a presence through retailing directly.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The Feds managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

The world's largest retailer Wal-Mart has termed India's decision to allow 51% FDI in multi-brand retail as a "first important step" and said it will study the finer details of the new policy to determine the impact on its ability to do business in India.

4. FDI's benefits for Retail sector:

Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

better and cheaper price. It enables a country's product or service to enter into the global market.

- ❖ Cheaper production facilities: FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.
- ❖ Availability of new technology: FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.
- ❖ Long term cash liquidity: FDI will provide necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.
- ❖ Lead driver for the country's economic growth: FDI would create a competition among the global investors, which would ultimately ensure better and lower prices thus benefiting people in all sections of the society. There would be an increase in the market growth and expansion. It will increase retail employment and suppress untrained manpower and lack of experience. It will ensure better managerial techniques and success. Higher wages will be paid by the international companies. Urban consumers will be exposed to international lifestyles.
- ❖ FDI opens new doors for Franchising: Restrictions on FDI are considered as trade barriers as they deny direct market access to foreign firms. Retail giants who are at their wings, seeking entry into foreign market look for other available alternatives. These restrictions on the global retailers regarding the inflow of Foreign Direct Investment, leads them towards acquiring the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offers substantial growth in the franchising sector as well.

5. FDI's drawbacks for Retail Sector:

The recent clamor about opening up the retail sector to Foreign Direct Investment (FDI) becomes a very sensitive issue, with arguments to support both sides of the debate. It is widely acknowledged that FDI can have some positive results on the economy, triggering a series of reactions that in the long run can lead to greater efficiency and improvement of living standards, apart from greater integration into the global economy.

- ❖ The most important factor against FDI driven “modern retailing” is that it is labor displacing to the extent that it can only expand by destroying the traditional retail sector.

- ❖ Entry of foreign players now will most definitely disrupt the current balance of the economy, will render millions of small retailers jobless by closing the small slit of opportunity available to them.
- ❖ As per present regulations, 51% FDI is permitted in retail trade in India, which will have immediate and dire consequences on the retail sector.

6. Effects of Wal-Mart in India:

Imagine if Wal-Mart, the world's biggest retailer sets up operations in India at prime locations in the 35 large cities and towns that house more than 1 million people. The supermarket will typically sell everything, from vegetables to the latest electronic gadgets, at extremely low prices that will most likely undercut those in nearby local stores selling similar goods. Wal-Mart would be more likely to source its raw materials from abroad, and procure goods like vegetables and fruits directly from farmers at pre- ordained quantities and specifications. This means a foreign company will buy big from India and abroad and be able to sell low — severely undercutting the small retailers. Once a monopoly situation is created this will then turn into buying low and selling high.

Such re-orientation of sourcing of materials will completely disintegrate the already established supply chain. In time, the neighboring traditional outlets are also likely to fold and perish, given the 'predatory' pricing power that a foreign player is able to exert. As Nick Robbins wrote in the context of the East India Company, “By controlling both ends of the chain, the company could buy cheap and sell dear”.

7. Recommendations:

1. The retail sector in India is severely constrained by limited availability of bank finance. The Government and RBI need to evolve suitable lending policies that will enable retailers in the organized and unorganized sectors to expand and improve efficiencies.
2. A National Commission must be established to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI— as and when it comes.
3. The proposed National Commission should evolve a clear set of conditionality's on giant foreign retailers on the procurement of farm produce, domestically manufactured merchandise and imported goods.
4. Entry of foreign players must be gradual and with social safeguards so that the effects of the labor dislocation can be analyzed & policy fine- tuned.
5. Make the costs of entry high and according to specific norms and regulations so that the retailer cannot immediately indulge in 'predatory' pricing.
6. The Government must actively encourage setting up of co-operative stores to procure and stock their consumer goods and commodities from small producers.

7. Due attention must be given to the producer too. Often the producer loses out, for example, when the goods are procured at Rs.2 and ultimately sold to the consumer at about Rs.15 as in the case of tomatoes now.
8. Set up an Agricultural Perishable Produce Commission (APPC), to ensure that procurement prices for perishable commodities are fair to farmers and that they are not distorted with relation to market prices.

**Conclusion:**

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

In this fashion, the Government can try to ensure that the domestic and foreign players are approximately on an equal footing and that the domestic traders are not at an especial disadvantage. The small retailers must be given ample opportunity to be able to provide more personalized service, so that their higher costs are not duly nullified by the presence of big supermarkets and hypermarkets.

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# Comparative Pricing Behaviour Between At Par & Premium Initial Public Offers In India

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**Abstract**

The objective of this paper is to highlight the comparative price behaviour between at par and premium initial public offers in India. A sample of 488 IPOs offered during calendar year 1993-94 to 2007-2008 has been extracted for the study. The sample of the research is constituted by adding together 170 at par and 318 premium initial public offers. Pricing behavior of IPOs has been studied with the help of price performance indicators like average market adjusted abnormal return ( Average MAAR), average buy and hold abnormal return ( Average BHAR) and wealth relative(WR). On listing day, the average market adjusted abnormal return is higher for at par issues. Wealth Relative (WR) of also verify the results; it is more than double for the at par issues on listing day of IPOs. For the premium issues, the WR is 1.37, which is considerably lower than WR of par issues. It is found that average market adjusted abnormal return for both types of IPOs is positive and significantly different than zero at five per level of significance. The average BHARs of short-run (one month after listing, two months after listing, and three months after listing and six months after listing) for at par IPOs are significantly higher than the premium issues. However, average BHARs for both types of IPOs are positive. Average BHAR for at par IPOs is showing a constant declining trend but still positive in long-run also. At par IPOs have more average BHAR for after three years of listing as compare to premium IPOs. But in long-run, only after one year listing at par IPOs has positive Mean BHAR which is significantly different than zero at 5 per cent level of significance. It is concluded that in long run under pricing is not there for premium IPOs. For at par IPOs under pricing is in existence after listing one year. However, there is no clue of underperformance for both types of IPOs upto three years of listing, because neither average BHAR is negative nor WR is less than one.

**Keywords:** Market adjusted abnormal return (MAAR), BHAR, WR, Price Behaviour.

## Introduction

Capital market keeps a prominent role in each and every financial system. Capital market is categorized in to (a) Primary Market or New Issue Market and (b) Secondary Market. In Primary Market company approaches investors to raise long term funds through debentures or equity or combination of both. Initial public offer is one of the prominent source of finance for corporate. An initial public offer, or IPO, is the first sale of stock by a public company to the general

public. The mechanism of determining the offer price during the Controller of the Capital Issues regime was to offer shares at fixed price. The firm and merchant banker decide an offer price without taking into account the investor's feedback. SEBI introduced book-building for pricing of new issues. Book – building is not a method of price calculation; it is a price discovery method. Under this method issuer and book runner (Book Running Lead Manager) together decide the price band of the securities. Price band consists of two prices: floor price (low price) and top or cap price (high price). After this, lead manager asks syndicate member to collect the bids/ application forms from investors. After closing the issue, lead manager summarizes the bids and determines the cut off or issue price and allots the shares to all those investors, whose bid is more than cut-off price (Shollapur & Sunagar, 2008).

On listing day or first trading day of IPOs under pricing is universal phenomenon. The study attempts to compare the extent of under pricing between at par & premium IPOs in India during 1993-94 to 2007-08. During the study period Indian IPO market has experienced a volatile trend. It can be observed through studying the growth of Indian IPO market. The growth of IPOs in India is presented in table-1.

**Growth of Indian IPO Market:**

It has observed a quick rise in the initial years of the liberalized era. The growth observed during the first half of the 90s is mostly attributed to the financial liberalization of the economy. Capital market reforms like abolition of the office of controller of capital issues (CCI), constitution of SEBI under the new security and regulation act and relaxation in pricing of capital issues played an important role in such rise.

Table 1: Growth of Indian IPO Market

| Year | NO. of IPOs | Amount (in crore Rs.) |
|---|---|---|
| 1993-94 | 692 | 7864 |
| 1994-95 | 1239 | 16572 |
| 1995-96 | 1357 | 10924 |
| 1996-97 | 717 | 5959 |
| 1997-98 | 52 | 1048 |
| 1998-99 | 18 | 404 |
| 1999-00 | 51 | 2719 |
| 2000-01 | 114 | 2722 |
| 2001-02 | 7 | 1202 |
| 2002-03 | 6 | 1039 |
| 2003-04 | 21 | 3434 |
| 2004-05 | 23 | 13749 |
| 2005-06 | 79 | 10936 |
| 2006-07 | 77 | 28504 |
| 2007-08 | 85 | 42595 |
| 2008-09 | 21 | 2082 |
| 2009-10 | 39 | 24696 |
| 2010-11 | 53 | 35559 |
| 2011-12 | 54 | 41515 |

Source: Various Annual Reports of SEBI

Table1 shows that IPO market has showed a sharp rise from 692 issues for Rs. 7864 crore during 1993-94 to 1239 IPOs for Rs. 16572 crore during 1994-95. There was a marked decline in the number of IPOs and amount raised through them in 1996-97, mainly as a result of stricter eligibility criteria for public issues imposed by SEBI. The number of IPOs declined to 717 amounting to Rs. 5959

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

during 1996-97. The number of IPOs further declined in 1997-98 to 52 amounting to Rs1048 crore. The decline in the share of IPOs can be partly attributed to the decline in industrial activity in the country and partly due to strict entry point norms, which disallowed green field projects without track record from accessing the market (Annual Report, SEBI, 1997-98). That's why, year 1997-98 considered as a part of cold or slump period of Indian IPO market.

For the year 1998-99, only IPOs 18 for Rs. 404 crore were issued. The deficiency of issues of good quality, lack of confidence of investors in new companies and depressed secondary market, were some of the reasons, which slowed down the growth of IPOs (Annual Report, SEBI, 1998-99). There was a recovery in the market the number of IPOs during 1999-00 to 51 for Rs. 2719 crore from 18 IPOs for 404 Rs. crore and their successful subscription indicated the restored enthusiasm and confidence of investors to invest in new companies especially in knowledge based industries particularly in information technology and healthcare IPOs(Annual Report, SEBI, 1999-00). This was also a worldwide trend. This tendency continued for 2000-01 when number of IPOs increased to 114 amounting to Rs. 2722 crore. The number again declined to 7 IPOs amounting Rs. **1202 crore** during 2001-02. The number of IPOs was very low 6 and 21 for the year 2002-03 & 2003-04 respectively. In 2004-05 Indian IPO market experienced a boom like situation 23 IPOs collected Rs. 13749 crore. In 2005-06 number of IPOs increased to 79 but amount raised declined to 10936.The momentum witnessed in the primary market since 2005-06 increased in 2006-07.

Strong macro-economic fundamentals, favorable investment climate, encouraging corporate results, and buoyant secondary market performance supported by institutional investors encouraged a number of companies to raise capital from the primary market (Annual Report, SEBI, 2006-07). Boom also continued for year 2006-07 and 2007-08. In 2006-07 number of IPOs increased to 77 amounting Rs. 28504 crore**. The upward trend in primary market activities continued in 2007-08. The buoyancy in the secondary market coupled with strong macro-economic fundamentals, active institutional support led by FIIs and mutual funds encouraged large number of companies to raise resource from the primary market** (Annual Report, SEBI, 2007-08)**.** IPO market touched its leaps and bounds in 2007-08, 85 companies collected Rs. 42595 through their IPOs.

## Review of Literature

The study has been conducted to compare the pricing behaviour between at par & premium IPOs during 1993-94 to 2007-08. The plenty of literature is accessible on underpricing & pricing behavior of IPOs. Review of various studies concerning IPOs is as follows:

*Shah (1995),* using the data of 2056 offerings listed on BSE during 1991-1995, stated that "the listing delay is positively related to the underpricing to the extent that the issuing firm earns the interest rate float on the application money, and to the extent that investors lose liquidity on their application money, they must be compensated for it by enhanced underpricing." Study also found the

evidence of underpricing of both larger and smaller issue, which is contrary to results of studies in other countries where only smaller companies are associated with underpricing

Madhusoodhanan and Raju(1997) analysed the Indian IPO market for the short run as well as long term underpricing(1922 issues listed during 1992-1995). The study indicated that ,in general ,the underpricing in the Indian IPOs was higher than experiences of other countries. In the long-run too, Indian offerings had given high returns compared to negative returns reported from other countries.

Krishanmurti and Kumar, Pardeep (2002) analyzed 386 IPOs to gauge the initial listing performance of Indian IPOs and to determine as to why IPOs were underpriced in India. Results showed that for overall sample the market adjusted return using Sensex as proxy was 72.34 per cent.

Nandha and Sawyer (2002) studied 261 par and 120 premium issues, over the financial year 1994-1995 and found that the higher promoters' holding had led to higher initial returns because higher promoters' holding reduce the ex-ante uncertainty. This finding is in contradiction with the finding of Chinese capital market t(Su, 2004).

Singh, Balwinder & Mittal R K (2003) covered 500 IPOs floated during 1992-1996. The study reported that par issues were more underpriced than premium issues. It was found that an average underpricing was 83.22 per cent. The market (sensex) adjusted abnormal return was 75.16 per cent.

Kumar, SSS (2007) found underpricing of 26.35 per cent for a sample of 156 book-built IPOs during 1999-2006. The Study assumed that the larger issues were less risky, but the regression coefficient was insignificant. Return on opening price was considered as the major determinant of underpricing.

Pande, Alok, Vaidyanathan R (2007) found that the degree of under pricing in the Indian stock markets has reduced over the years. It is good for firms getting listed as underpricing is an indirect cost to the firm.

Jankiramanan, S. (2007) conducted a study on 116 IPOs issued by the companies in the Indian market during the period from 2000 to 2001. The study found that under- pricing exists in Indian Market.

Sehgal & Singh (2008) has conducted a study to check underpricing and long run performance of 438 Indian initial public offers listed on BSE during june1992-march 2006. The mean underpricing had been found 99.2 per cent, which is very high if compared with international evidence. Age of the firm, listing delay at IPO and number of times the issue is subscribed has been found the significant determinants of underpricing. Indian IPOs did not tend to underperform in the long-run. Average BHAR after 60 months of listing was 90.13%.

**Shollapur and Sunagar (2008) considered two case studies: Tech-Mahindra Ltd. and Voltamp Transformer Ltd., both the companies followed**

**100 percent book-building method for determining the issue price. Price band in the both companies was different due to variation in their P/E ratio. Study was based on field survey of 50 investors. Study proved investors too had greater belief in book-building method than the fixed pricing route.**

Sahoo & Prabina, Rajib(2010) covered 92 Indian IPOs issued during the period 2002-2006. It is reported that on an average IPOs are underpriced to the tune of 46.55 percent on the listing day. The long run performance of IPOs upto a period of 36 months was measured by using wealth relative (WR)and buy and hold abnormal return (BHAR) , both being adjusted with market index, CNX-Nifty. The average BHAR after 3 years reported 41.91per cent.

Jain, C & Padmavathi (2012) study on 227 book-built IPOs for the period of 2004-2009 found that the average underpricing during this period was 28 percent while the maximum underpricing was around 242 per cent. Findings of the study supported the signalling hypothesis of Allen and Faulhaber(1989). The findings of the study indicated that the underpricing of IPOs was the result of investors' high willingness to pay, high subscription, firm value and prevailing market condition.

**Research Methodology**

**Objectives of the study:**

The study has been conducted to fulfill the following objectives:

1. To compare the Raw Return, Average MAAR & Annualized Average MAAR of IPOs of at par & premium IPOs on listing day.
2. To present the comparative position of average buy and hold abnormal return & wealth relative at different point of time between at par & premium IPOs after listing.

**Sample Plan:**

1. This study is based on equity shares initial public offers offered on BSE during 1993-94 to 2007-08.
2. For year from 1993-94 to 1996-97, it was very inconvenient to cover all the IPOs offered during these years. Therefore, systematic random sampling used and approx. 400 companies selected for the study, but due to non-availability of data 169 companies finally considered for the study related to this time period. For the year 1997-98 to 2007-08, 319 IPOs have been considered. In keeping of view that a sample of 488 companies has been constituted.
3. IPOs traded for at least three years after listing considered for the study.
4. Companies issued right issue and bonus issue during three years of the IPO, have been excluded.
5. Companies who changed the face value of the share during three years of the issue also have been excluded.

**Data Collection**:

In view of the main objectives of the study, secondary data has been used. Secondary data is collected from the different sources some of them are as; Annual reports of SEBI, Prowess, Prime database, The Economics Times, www.icicidirect.com, www.bseindia.com. and www.sebi. gov. in..

**Analysis Pattern of the Study**:

Price performance on listing day of IPOs:

To examine the Price performance on listing day of Indian IPOs, Market adjusted abnormal return of IPOs and wealth relative are calculated. The following equations have been used for this purpose.

<u>Raw Return on a Stock</u>

Ri =(Pi/Po)-1*100

Where, Ri ( in %) is the shareholders' raw return , Pi is the closing price on the first day of trading and Po is the offer price.

Return on Market Index

The return on the market index Rm (in %) during the same period is calculated.

Rm= (Pm1/Pm0)-1*100

Pm1 denotes the closing value of the benchmark index on the first trading day of the stock and Pm0 is the closing value on the benchmark index on offer closing day. The BSE Sensex is used as the benchmark index.

Market-adjusted Abnormal Return

MAAR=Ri-Rm

Market-adjusted abnormal return ( in %) is calculated as the return on the stock minus the return on a market benchmark (BSE-sensex) over the same period.

Average Listing Day price performance computed by following equation:

Average MAAR= $\frac{1}{n}\sum_{i=1}^{n} MAAR$

Annualized Market-adjusted Abnormal Return

Annualized Market-adjusted Abnormal

Return = $\frac{365}{lead\ time} * MAAR$

Wealth Relative

The magnitude of wealth relative is an indication of the performance of the stock vis-à-vis the benchmark index.

A wealth relative greater than unity implies that IPOs outperformed the benchmark index in that period, while a wealth relative below 1 indicates underperformance.

WR= $\frac{1+\frac{1}{N}\sum_{i=1}^{n} ri}{1+\frac{1}{N}\sum_{i=1}^{n} rm}$

Where,

N= Total number of IPOs in the sample

ri= Ri/100

rm=Rm/100

Short & long run price behaviour of IPOs:

To examine short & long run price behaviour, average buy-and-hold abnormal returns (BHARs), and the wealth relative (WRs) are calculated. Average BHARs and WRs of after listing one month, two month, three month and six month have been considered to make out short term price performance of IPOs. Average BHARs and WRs of after listing one year, two years & three years have been considered to compose out long term performance of IPOs.

Buy-and-hold Abnormal Return (BHAR)

The return of IPO *i* is calculated for a buy-and-hold investment strategy. This investment strategy presumes that an IPO is received at the offer price (issue price) and is kept in the portfolio over a period of *T* months. The buy-and-hold abnormal return for firm *i* over a period of *s* months, is calculated as:

$$BHAR_{iT}=\prod_{t=1}^{T}(1+Rt)-\prod_{t=1}^{T}(1+Rm)$$

Where, *BHARiT* is the buy-and-hold abnormal return for firm *i* during holding period *T, Rm* is the raw return for firm *i* in month or year *t*, and Rm is the return of the BSE sensex used as the benchmark return. Positive buy-and-hold abnormal return demonstrates better performance of IPO compared to the benchmark. The mean buy-and-hold abnormal return is computed as the arithmetic average of abnormal returns on all IPOs in the sample of size *n*:

$$\overline{BHAR}=\frac{1}{N}\sum_{t=i}^{N} BHAR_{iT}$$

where, Average BHAR ( Average buy-and-hold abnormal return) of all the IPOs in the sample of size N for the holding period T and BHAR iT is the buy-and-hold abnormal return for firm i during the holding period T.

Wealth Relative

WR is discussed already, to compute the listing day price performance.

Hypothesis Testing:

Ho: IPOs in India are not underpriced.

To test the Hypothesis t –test has been used (Janakiraman, S., 2007).

Underpricing: If average market adjusted abnormal return/BHAR of IPO is positive or greater than zero. Wealth relative greater than one also indicates for underpricing.

Overpricing: If average market adjusted abnormal return/BHAR of IPO is negative or less than zero. Wealth relative less than one also indicates for overpricing.

Analysis & Results

At Par & Premium IPOs Price Performance in India:

This section compares the IPOs at par and premium & explains listing day price performance (underpricing) , short term ( after listing month one; after listing two months; after listing three months and after listing six months) and long run price performance( after listing one year; after listing two years and after listing three years).

Table II depicts the underpricing for both types of IPOs. Table II shows average raw return, average market adjusted abnormal return and annualized average market adjusted abnormal return. Average market adjusted abnormal return is used to determine the level of underpricing on listing day. Indian IPO market has shown underpricing for two types of issues.

Table 2: Premium & At Par IPOs Price Performance On Listing Day

| Prem. v/s At par IPOs | No. of IPOs | Average Raw Return (%) | Average Market Adjusted Abnormal Return (%) | Annualized Average Market Abnormal Return (%) | WR |
|---|---|---|---|---|---|
| At par (Non Prem.) | 170 | 179.7324* | 165.7788* | 429.2127* | 2.4548 |
| Prem. | 318 | 41.5942* | 38.2408* | 389.1796* | 1.3700 |
| Total | 488 | 89.7161* | 82.6700* | 403.1256* | 1.7723 |

*Significant at 5% level of significance

Underpricing ranges 38(%) to around (165%). The average market adjusted abnormal return is higher for at par issues. Wealth Relative (WR) of also verify the results; it is more than 2 for the same par issues. For the premium issues, the WR is 1.37, which is lower than WR of par issues. It is found that average market adjusted abnormal return for both types of IPOs is positive and significantly different than zero at 5(%) level of significanance. Hence, it is concluded that during the study period Indian IPO market remain underpriced on listing day.

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Table III examines the short-run year-wise price performance or after market performance of IPOs in India. Table III shows four parameters of short run performance, one month after listing; two months after listing; three months after listing and six month after listing. BHAR & WR have used to examine the performance.

Table 3 : Premium & At par IPOs Short Term Price Performance

| Prem. v/s At par | No. of IPOs | After Listing Month 1 Average BHAR | WR | After Listing Month 2 Average BHAR | WR | After Listing Month 3 Average BHAR | WR | After Listing Month 6 Average BHAR | WR |
|---|---|---|---|---|---|---|---|---|---|
| At par | 170 | 150.7645* | 2.3067 | 142.708* | 2.2486 | 117.901* | 2.0325 | 114.565* | 2.0273 |
| Prem. | 318 | 29.1985* | 1.2801 | 21.618* | 1.2057 | 20.956* | 1.1966 | 14.907* | 1.1371 |
| Total | 488 | 71.5473* | 1.6618 | 63.801* | 1.5892 | 54.727* | 1.5010 | 49.623* | 1.4524 |

*Significant at 5% level of significance

Indian IPO market has shown underpricing for both types of the IPOs in short-run also. Underpricing ranges 14.9062(%) to around 151 (%) in short run. Wealth Relative (WR) of this category IPOs also verifies the results. The average BHARs of short-run ( one month after listing, two months after listing, three months after listing and six months after listing) for at par or non-premium IPOs significantly higher than the premium issues. However, average BHARs for both types of pricing methods are positive & significantly different than zero at 5(%) level of significance. Hence, it is concluded that during the study period Indian IPO market remain underpriced in short-run also.

Table IV compares at par and premium IPOs long-run price performance or after market performance of IPOs. Table IV shows three parameters of long- run price performance, one year after listing; two years after listing and three years after listing. Average BHAR & WR have used to examine the performance.

Table 4 : Premium & At par IPOs Long Term Price Performance

| Prem. v/s At par | No. of IPOs | After Listing year One BHAR | WR | After Listing year Two BHAR | WR | After Listing year Three BHAR | WR |
|---|---|---|---|---|---|---|---|
| At par | 170 | 87.7033* | 1.7629 | 18.6438 | 1.1557 | 10.1369 | 1.0761 |
| Prem. | 318 | 10.5610 | 1.0921 | 24.1834 | 1.1947 | 7.5907 | 1.0568 |
| Total | 488 | 37.4343* | 1.3262 | 22.2536 | 1.1814 | 8.4777 | 1.0635 |

*Significant at 5% level of significance

Average BHAR for both types of issues is positive. It means there is no sign of underperformance in the long-run. Average BHAR for at par IPOs is showing a constant declining trend but still positive in long-run. At par IPOs have more average BHAR after three years of listing as compare to premium IPOs. But in long-run, only at par IPOs after listing one year have positive Mean BHAR which is significantly different than zero at 5(%) level of significance.

It is concluded that in long run underpricing is not there for premium IPOs. For at par IPOs underpricing is in existence after listing one year. However, there is no clue of underperformance for both types of IPOs because no average BHAR is negative.

## Comparative Price Behaviour Between Premium & At Par IPOs:

| Total No. of IPOs | Time | Average MAAR/BHAR (%) (At Par IPOs) | Average MAAR/BHAR (%) (Prim. IPOs) |
|---|---|---|---|
| 488 | Listing Day | 165.7788* | 38.2408* |
| 488 | After Listing Month 1 | 150.7645* | 29.1985* |
| 488 | After Listing Month 2 | 142.7077* | 21.6175* |
| 488 | After Listing Month 3 | 117.9008* | 20.9554* |
| 488 | After Listing Month 6 | 114.5646* | 14.9062* |
| 488 | After Listing year One | 87.7033* | 10.5610 |
| 488 | After Listing year Two | 18.6438 | 24.1834 |
| 488 | After Listing year Three | 10.1369 | 7.5907 |

Table V: Comparative Price Behaviour Between Premium & At Par IPOs

*Significant at 5% level of significance

Table V depicts that the average market adjusted abnormal return (MAAR) for non-premium issues or at par issues is very high as compare to premium issues. Average MAAR is an indicator of the level of the underpricing on the listing day of the issues. It is concluded that par Issues scored high level underpricing. The level for underpricing is more than four times for par Issues as compare to premium IPOs. But both types of issues at par & premium are showing underpricing. Generally, it is analysed that the level of underpricing is declining gradually for both types of IPOs. In long run premium issues are not underpriced. The average BHARs after listing one year; two years and three years are not significantly different than zero at 5per cent level of significance. The par issues are also not underpriced after listing two and three years.

Table VI is also verifying the results of average BHARs through WRs. It is also found that the level of underpricing is low for premium issues as compare to the par. WRs for both types of issues are continuously declining. But value of all WRs is greater than one, which means there is no loss to the investors who have applied for IPOs upto three years after listing.

| No. of IPOs | Time | WR (At Par IPOs) | Pricing Behaviour | WR (Prim. IPOs) | Pricing Behaviour |
|---|---|---|---|---|---|
| 488 | Listing Day | 2.4548 | Underpricing | 1.3700 | Underpricing |
| 488 | After Listing Month 1 | 2.3067 | Underpricing | 1.2801 | Underpricing |
| 488 | After Listing Month 2 | 2.2486 | Underpricing | 1.2057 | Underpricing |
| 488 | After Listing Month 3 | 2.0325 | Underpricing | 1.1966 | Underpricing |
| 488 | After Listing Month 6 | 2.0273 | Underpricing | 1.1371 | Underpricing |
| 488 | After Listing year One | 1.7629 | Underpricing | 1.0921 | Underpricing |
| 488 | After Listing year Two | 1.1557 | Underpricing | 1.1947 | Underpricing |
| 488 | After Listing year Three | 1.0761 | Underpricing | 1.0568 | Underpricing |

Table VI: Comparative Price Behaviour Between Premium & At Par IPOs (WR)

**Conclusion**

The results of the study are consistent with the study of Singh & Mittal (2003). In Indian IPO market there is no clue of underperformance as mentioned by fewer studies but the degree of underpricing gradually declines after listing of IPOs. It is proved that the extent of underpricing is higher for at par IPOs, generally. It is concluded that at par IPOs scored high level underpricing as compare to premium IPOs, generally. Underpricing is more than four times for par Issues as compare to premium IPOs on listing day. But both types of at par & premium IPOs are showing underpricing on listing day or first trading of IPOs. In short-run ( one month after

listing, two months after listing, three months after listing and six months after listing) average BHARs for at par or non-premium IPOs are significantly higher than the premium issues. However, average BHARs for both types of IPOs are positive & significantly different than zero at 5 per cent level of significance. Hence, it is concluded that during the study period Indian IPO market remain underpriced in short-run also. In long run premium issues are not underpriced. The average BHARs after listing one year; two years and three years are not significantly different than zero at 5 per cent level of significance. At par IPOs are also not underpriced after listing two and three years. In long run, only at par IPOs are underpriced after one year listing (Average BHAR after listing one year significant five per cent level).

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# CONSUMER BEHAVIOUR TOWARDS ONLINE BANKING IN INDIA

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**Abstract**

To-day, we cannot think about the success of a banking system without information technology and communication. It has enlarged the role of banking sector in the economy. The financial transactions and payment can now be processed quickly and easily. The banks with the latest technology and techniques are more successful in the competitive financial market. They have been able to generate more and more business resulting in their greater profitability. Various empirical and theoretical studies have been undertaken at the national and international level to analyze the impact of e-banking and information and communication technology (ICT) on banking sector, customers, and service quality and payment system.Information Technology (IT) is very powerful in today's world, and financial institutions are the backbone of the Indian economy. Indian Banking Industry today is in the midst of an IT revolution. Nearly, all the nationalised banks in India are going for information technology based solutions. The application of IT in Banks has reduced the scope of traditional or conventional banking with manual operations. Nowadays banks have moved from disbursed to a centralized environment, which shows the impact of IT on banks. Banks are using new tools and techniques to find out their customers need and offer them tailor made products and services. The impact of automation in banking sector is difficult to measure.Owing to the high costs involved in increasing the current client base, one of the main goals of banks and other financial services providers, which operate through the internet, should be to develop customer loyalty in order to improve their results. To achieve this aim, these companies face most vital challenge in providing and maintaining service quality. Service quality is an input of customer trust which becomes satisfaction and lead to loyalty as an output.The accessibility of the Internet and lower costs of doing transactions has given rise in customers bargaining power and intense global competition. Although the Internet has great potential for consumer value reports indicate that consumers vary in their levels of Internet adoption.Customers' behaviors vary depending onseveral factors such as demographics, technology literacy andexperience level and so forth which will then influence their assessment of service quality entailing brand loyalty. Based on the belief that marketing to well-defined segments of customers would improve the quality of services offered affording higher retention rates and at the same time increase firms' profitability in the long run many companies have opted to implement customer relationship management (CRM) programs. Hence, this study also aims to understand the relationships between consumer' behaviour and internet marketing programs.

The study mainly focuses upon the importance of e- banking and its acceptance among customer from Indian scenario. This paper attempts to accumulate literature in order to understand the overall impact of e-banking on customers and banks. The literature reviewed provides underlying patters of relationship between e-banking and its impact on profitability and other factors. Such

understanding is relevant for academicians and researchers for further work in this field. The insights into the previous studies, considered for this paper, are discussed and suggestions for future research are provided.

**Keywords:** consumer behavior, online banking, profitability, acceptance.

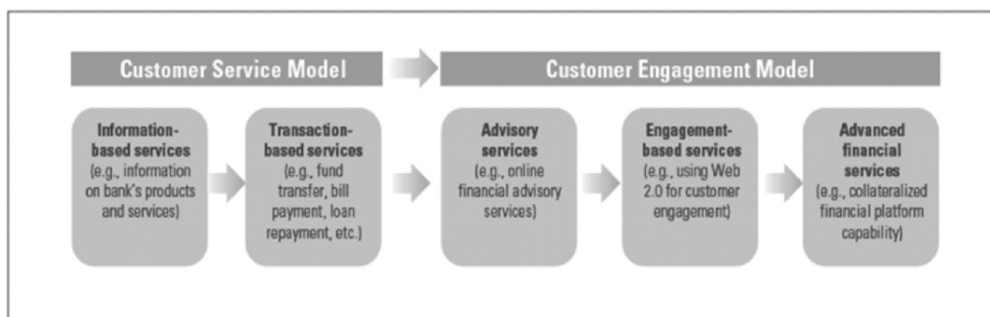
**Introduction**

Information Technology (IT) is very powerful in today's world, and financial institutions are the backbone of the Indian economy. Indian Banking Industry today is in the midst of an IT revolution. Nearly, all the nationalised banks in India are going for information technology based solutions. The application of IT in Banks has reduced the scope of traditional or conventional banking with manual operations. Now day's banks have moved from disbursed to a centralised environment, which shows the impact of IT on banks. Banks are using new tools and techniques to find out their customers need and offer them tailor made products and services. The impact of automation in banking sector is difficult to measure.

Internet banking has evolved over the last decade from product brochure ware, to a complete financial marketplace for its online customers. Banks see Internet banking as the key channel for growth and customer retention. As such, the online banking model has moved from tactical and lower cost customer service, to a more strategic form of customer engagement.

Many banks have adopted the latest technologies and added new Internet banking functionalities and features to stay ahead of the competition. However, when measured by key performance indicators such as customer growth, revenue growth, etc., the value delivered varies from bank to bank. While some banks achieve better customer response and retention from adding new technology/feature bells and whistles, others have received moderate to poor acceptance, which has undermined their return on investment. The challenge is to find the right approach and leverage the right mix of technology and features that keep customers happy and transacting over an extended period of time.

Changing Internet Banking Business Models




Internet Banking in India is taking a new turn in Industry. Now, the banks are focusing more on engaging customers through advisory services, advanced financial services and engagement based services. Due to shortage of time banks are focusing more upon technologies which are less time consuming and easy to operate. Customers are looking for services which are time savers and highly efficient. Banks have come to realize that merely adopting a stand-alone technology, providing best-in-class customer service or having innovative products in their portfolios is not a guarantee for the success of their Internet-banking model, nor can these approaches function as differentiators for long. The guarantee for a successful online banking model involves a blend of features that revolve around various strategic themes.

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

**Rationale of The Study**

Even though there is increase in the use of internet medium and customer satisfaction, customers understanding is a major issue of concern for the banking industry. In particular, since the competition is just a mouse click away, e-loyalty appears to be essential for electronic banks both in an economic as well as a competitive sense. One of the most exciting and successful uses of this revolutionary technology may be the internet's role in understanding customers perspective, building customer loyalty and maximizing sales to the existing customers.

Hence, a theoretical background is required to provide further understanding of customer's perspective in the banking industry in relation to e-banking. In this pursuit, the current paper aims to provide a review of the studies done in relation to understanding consumer'sbehavior in the context of e-banking.

**Objectives**

A number of studies have examined the development of electronic banking (or e-banking) and its operations.These previous studies point to the need for understanding how customers understanding of the need are developed. Whatever studies done in this directionindicate only some parts of relationships between the antecedents of customers understanding and their influence on improving the profitability and loyalty of banks.

Hence, this paper attempts to synthesize the available literature in order to understand the conceptual nature of customers' expectations and behavior towards electronic or online banking in India. More specifically, the study provides a review of literature done on consumer behavior towards online banking. In addition, the study also objects to assess the methodology adopted by various authors and the outcomes of the study relationships among the considered variables.

**Literature review**

In the 1990s, the banking sector in India saw greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. The Internet Banking is becoming one of the fastest growing technologies that is playing a significant role in the daily lives of human beings. Internet Banking and Mobile Banking made it convenient for customers to do their banking from geographically diverse places. Banks also sharpened their focus on rural markets and introduced a variety of services geared to the special needs of their rural customers. The Internet is slowly gaining popularity in India. The Internet Banking is changing the banking industry and is having the major effects on banking relationships. Internet Banking involves delivery of banking products and services. At present many of the banks around the world have web presence in form of ATMs, Internet Banking, Support services etc. In the world of banking, the development in information technology has an enormous effect on development of more flexible payment methods and more-user friendly banking services. Electronic Banking services are new and the development and diffusion of these technologies by financial institutions is expected to result in more efficient banking system.

**Noor R. Ab Hamid (2008),** study results indicate that consumers who use the Internet for information searching, online reservation and online banking are not significantly different in their perceptions towards Internet activities. Ironically, although consumers who perform online banking are actively using the Internet to transfer money and make online bill payments they tend to be less willing to purchase product/service.

Internet banking is a form of self-service technology. The numbers of Internet users have increased dramatically, but most of them are reluctant to provide sensitive personal information to websites because they do not trust e-commerce security.**Dixit and Dutta (2010),** paper investigates the factors which are affecting

the acceptance of e-banking services among adult customers and also indicates level of concern regarding security and privacy issues in Indian context.The finding depicts many factors like security&privacy, trust, innovativeness, familiarity, awareness level increase the acceptance of e-banking services among Indian customers. The finding shows that in spite of their security and privacy concern, adult customers are willing to adopt online banking if banks provide him necessary guidance.

**Vinayagamoorthy and Senthikumar**analysis the role of reach of Internet banking in India. The major finding of the study are: In the users ratio of internet banking 65% of customers are using this service. More banks are connecting to the any software company to running the E-banking service. In these services the SBI banks is top in service of E-banking. The services that are mostly used by maximum customers are transactions, online trading, bill payment, shopping etc. The mode of the cash deposit in bank is for use to online transaction cash, cheque & e-banking. Different banks different charge on online service. Although there is some feeling of insecurity also but still due to the multi-features service and business class prefer it.

**Moghadam, Behbondi and Jaferi (2012)** conducted a study to investigate the impact of internet advertisement on banking effectiveness in Iran. The study found that these variables explain successfully the impact of Internet advertising on the effectiveness of Internet banking. The findings showed that increasing the customer's arousal by Internet advertisements to use Internet banking as well as creating a positive attitude toward bank's brand are the key factors in Internet banking effectiveness.

**Dannenberg and Kellener (1998)**presents opportunities for the effective utilization of the Internet with regard to the banking industry. It is shown that the appropriate application of today's cutting-edge technology can lead to a momentous competitive advantage for banks. This is illustrated by a scenario focussing on the potentials of "Advising via Internet".

**Daniel (1999),** in his research paper, described e-banking as the newest delivery channel offered by the retail banks in many developing countries. The objective of the study was to analyze the current provision of electronic services of major retail bankingorganizations in the UK.

**Talwar (1999)** examined the IT Revolution in banking sector which had not only provided improved service to the customer, but also reduced the operational cost.

**Wenninger (2000)** evaluated the emerging role of electronic commerce in banks. E-commerce had created new form of competition and compelled banks to make choices about the services they offer, the size of their branch network and extent of their support to inter- bank payments network.

**Impact of Online Banking in India**

**Rajshekhara K. S. (2004)** described the adoption of IT in banking has undergone several changes with the passage of time. Today IT has become an inseparable segment of banking organization. The application of information technology in the banking sector resulted in the development of different concepts of banking such as – E-banking, Internet Banking, Online Banking, Telephone Banking, Automated teller machine, universal banking and investment banking etc. Information technology has a lot of influence on banking transactions. It ensures quick service with low transaction cost to the customers. The real success of IT in the banking sector depends upon the customer's satisfaction. Therefore banks should organize and conduct customer awareness program in their service area. Security is an important issue in the context of E-banking. Thedevelopment of technology for the identification of customers with different means ofcommunication devices is a must for successful business and also to reduce frauds inbanking.

The study conducted by **Vij Madhu (2003)**, presents the changing profile of

Indian banks with the help of a comparative study of three private sector banks in India namely ICICI bank, HDFC bank and IDBI bank. The comparative analysis of the three private sector banks shows that HDFC stands out as a clear winner with ICICI at number two. In the study the researcher concludes that the challenge for the future will be the synergetic use of internet, proper understanding, measuring of risk management as also nurturing and retaining the intellectual capital.

**Ananthakrishnan G. (2005)** described customer's services in the banks. The discriminating customer's expectations have begun to change in terms of quality and service. With the advent of computers and ATMs, the gap between the customers and the banking personnel is widening. Unless a change of heart occurs, even the largest banks will find it hard to survive on their assumed false glory. Banks which take care to see thereality and react early will survive and prosper, while those who continue the traditional path will find their market share eaten away.

**Customers perceptionon Online Banking**

Customers, who are central to the banking service, are not a homogeneous class. They come from varying socio-economic and cultural backgrounds. Their perception about the banking services is so dynamic that it may differ from customer to customer and even for the same customer at different points of time, depending on their mood and mind-set. Successful banking relationships are formed at a human level. Factors which help in retaining the existing customers are:-

Past experiences with the bank.
Familiarity with the services offered by the bank and simplified procedures.
Knowledge of or experience with competitor's products and services.
Brand image-banking with a particular bank is regarded as a status symbol.
Overall ambience at the bank premises.
Extra services or value addition provided by the bank.

**Sohail and Shanmugham (2003)** examined the factors that influence the adoption of Internet banking and investigated whether Internet users and others differed in terms of these factors. Research into customer acceptance of Internet banking has thus improved understanding of what beliefs lead customers to use the facility and demonstrate how the beliefs influence Internet bank customer behavior.

**Rajesh k. Shrivastava (2007)**study revealed that education, gender, income play an important role in usage of internet banking. Not much research has been done on these areas as they were focused more on the acceptance of technology rather than on people. The research corroborated the conceptual framework stating that if skills can be upgraded there will be greater will to use internet banking by consumers. Inhibitory factors like trust, gender, education, culture, religion, security, price canhave minimal effect on consumer mindset towards internet banking.

**K.T. Geetha & V.Malarvizhi** investigated the factors which are affecting the acceptance of e-banking services among the customers and also indicates level of concern regarding security and privacy issues in Indian context. Primary data was collected from 200 respondents through a structured questionnaire. Descriptive statistics was used to explain demographic profile of respondents and Factor and Regression analyses were used to know the factors affecting e-banking services among customer in India. The finding depicts many factors like security and privacy and awareness level increased the acceptance of e-banking services among Indian customers. The finding shows that if banks provide them necessary guidance and ensure safety of their accounts, customers are willing to adopt e-banking.

Technology in Indian banks is catching up fast with the developments around the

world. This adoption not only allows banks to offer new types of banking and financial products, but also the highest level of services. **Kirti Dutta, Urvashi Makkar (2008),** focused on the other side of the coin, i.e., the adoption of Internet Banking (IB) by the consumers. The paper delves into the trends in IB and delineates the factors that affect the use of IB by customers. The 19 attributes that were studied for IB adoption were reduced to seven factors. It was observed that the sought-after benefits – encouragement, ease and accuracy, convenience and control, lifestyle and social factors, and bank reputation – were the five most important factors. On the other hand, factors such as the lack of knowledge and trust, security and privacy issues and the lack of training and incentives, were found to act as major inhibitors in IB adoption.

**Rao et al. (2003)** provide a theoretical analysis of Internet banking in India and found that as compared to banks abroad, Indian banks offering online services still have a long way to go. For online banking to reach a critical mass, there has to be sufficient number of users and the sufficient infrastructure in place. I.T. has introduced new business paradigms and is increasingly playing a significant role in improving the services in the banking industry. Internet banking is becoming more and more popular today, as is banking via digital television.

A strong banking industry is important in every country and can have a significant effect in supporting economic development through efficient financial services.**Munyoki and Ngigi (2011)** studied to investigate the factors influencing e-banking adoption among commercial banks in Kenya, and the challenges faced by commercial banks in the adoption of E-banking. Descriptive research design was adopted for the study. The study population comprised of all the 44 commercial banks in existence at the time of study. The study was conducted by use of questionnaires which were distributed to all commercialbanks in Kenya .The results showed that banks had only partially adopted e-banking as a strategy. The issue of security was found to be the most critical factor influencing e-banking adoption. Other major inhibitors were inadequate regulatory support, lack of in-house it professionals and quality of infrastructure.

Today, e-banking is used as a strategic tool by the global banking sector to attract and retain customers. **Himani Sharma (2011)** conducted an empirical study conducted with the objective of investigating bankers' views regarding e-banking. It covers bankers' perspectives on e-banking activities of respondents, impact of e-banking and promotional measures used by banks to promote e-banking.From the study it was concluded that bankers are convinced that e-banking helps in improving the relationship between bankers and customers and that it will bring patent improvement in the overall performance of banks. So far as promotional avenues are concerned, print media is at the top.

**Hooda and Aggarwal (2012)**examined the key consumer behaviour attribute and relation among them in e-marketing perspective. Attempt has been made to study the acceptance rate of e-marketing among the Jaipur consumers and its impact on their purchase decision. Result shows that people irrespective of age and gender surf internet. However significant difference exists between the age and attributes of online trading but it do not have any relation with the gender. Most of the respondents are hesitant to purchase items over internet because of security concerns. Most of the respondents irrespective of gender of different age group (especially age group of 18-30 years) find e-shopping more convenient & time saving and prefer credit card as the convenient mode of the payment.

**Safeena, Abdullah and Hema Date (2010)**study shows that perceived usefulness, perceived ease of use, consumer awareness and perceived risk are the important determinants of online banking adoption. Study concludes that majority of customers are accepting online banking because of many favorable factors. Usefulness, ease of use of the system awareness about online banking and risks

related to it are the main perusing factors to accept online banking system. These factors have a strong and positive effect on customers to accept online banking system.

**Salim Al-Hajri (2008),** addresses what are the enablers and the inhibitors of e-banking adoption in the Omani banking industry. In the study, four perceptions issues were explored: relative advantage; organizational performance, customer relationship and ease of use. From an analysis of 15 semi structured interviews, the findings revealed that all these four perceptions issues jointly provided an excellent understanding of what were the enablers and inhibitors of e-banking adoption.

**Conclusion**

Although internet banking provides flexibility in performing financial transaction, fast and easy, however individuals are still reluctant to adopt the system because of several reasons. First, the security and privacy are two elements in the perceived risk. Without a proper knowledge of the system, individuals are not interested to test the system.

Perceived usefulness, ease of use and consumer awareness has positive impact on the intention to adopt internet banking while perceived risk has negative impact on it. When online banking is perceived as useful, customer's intention to adopt it would be greater. Likewise bank customers are likely to adopt internet banking when it is easy to use. This shows that bank customers anchor their online banking adoption intention to the beneficial outcomes and ease of use process of the system.

**Suggestions**

This study makes significant contributions to knowledge in relation to customers' perception of factors affecting Internet banking adoption. Furthermore, it also provides an insight into the customers' needs and wants which may be essential for bankers in order to provide better services to customers. In the light of these findings, several recommendations will be made which may be useful for bankers and other related authorities.

Banks should make their customer more aware of their new products or services, in this, Internet banking, to encourage higher adoption rate. They can do so by having seminars, exhibitions or giving free-trial periods to allow customers to evaluate their new inventions. Besides that, education and publicity through mass media will also prove to be effective.

Banks should take security of their Internet banking sites into serious consideration since fraud and websites hacking still haunt most of the customers.

Internet banking sites should be made as user-friendly as possible as not many consumers are familiar with computer and the Internet, especially the older generation. Providing online help and giving customer the choice of their preferred language will ease their transactions.

In order to receive greater response towards Internet banking, it is recommended that bankers target their promotional activities towards those in the younger business personnel who are computer literate, well-educated and are quite well to do as they seem to be the most likely users of Internet banking as indicated in this study.

If possible, banks should not charge customer for their Internet banking services. This is because users have to incur other costs. However, if this does not appear to be feasible, they would have to make sure that the costs of transacting manually does not exceed the costs of Internet banking.

Despite all the frenzy about Internet banking, bank should not neglect their branch networks. Although these branches will play fewer roles in the future, they will still be needed in selling products and services where face-to-face communication is vital. Besides that, they are the only options of cash withdrawals and deposits.

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# IT & BANKING INDUSTRY IN PRESENT SCENARIO

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**Introduction to banking industry and marketing e-products of nationalised banks**

Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign). These banks have over 67,000 branches spread across the country.

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as "priority sectors". The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold. After the second phase of financial sector reforms and liberalization of the sector in the early nineties, the Public Sector Banks (PSB) s found it extremely difficult to compete with the new private sector banks and the foreign banks.

The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Eight new private sector banks are presently in operation. These banks due to their late start have access to state-of-the-art technology, which in turn helps them to save on manpower costs and provide better services.

During the year 2000, the State Bank Of India (SBI) and its 7 associates accounted for a 25 percent share in deposits and 28.1 percent share in credit. The 20 nationalized banks accounted for 53.2 percent of the deposits and 47.5 percent of credit during the same period. The share of foreign banks (numbering 42), regional rural banks and other scheduled commercial banks accounted for 5.7 percent, 3.9 percent and 12.2 percent respectively in deposits and 8.41 percent, 3.14 percent and 12.85 percent respectively in credit during the year 2000.

**Evolution of IT in Indian banking scenario**

The induction of technology, no doubt is absolutely essential for the overall progress in the Banking sector. Technology introduction by itself should have certain effects on the processes. Appropriate technology in place shall ease the process of financial intermediation, develop an efficient payment system, improve customer service, handle larger volumes, and generate efficient MIS etc.

The absorption of technology in Indian Banking scenario has witnessed a gradual but steady transgression in the last two decades. In the branch banking segment, transformation from manual to ledger posting machines (LPMs), Advanced ledger posting machines (ALPMs), Local are networks (LAN), Wide area network, centralised Core Banking Solutions (CBS) And extensive automated teller machines (ATM ) networks opened up rewarding avenues for the Banks to explore.

The nature of branch Banking is also undergoing remarkable transformations as the days of progress. Gone are the days when the customers used to flock the branches of the Banks to transact their business. With the advent of time, a segment of techno-savvy customers is also emerging who prefer to bank at their convenience round the clock without actually venturing into a branch premises. This demographic change is also instrumental to a large extent in the bank's building the capabilities for "anytime", "Anywhere", banking by implementing state of art projects like CBS, WAN, Internet banking, Tele-banking and ATM networks. (*IT and Business process re-engineering, article by V.K.Chopra* )

**IT for convenience to IT for survival**

Tracing back the history of Indian banking scenario, there are two distinct groups as far as infusion of technology is concerned .One group comprises of the Public sector Banks (PSBs) which command over the three quarter of the market share and old generation private banks (OGPSBs) who are relatively smaller entities from the first group .These banks were very slow in imbibing technology in their operations, have a large branch network all over the country.

The second group which consists of the new generation private sector banks (NGPSBs) and foreign banks (FBs) were early adopters of technology in their operations. The issues relating to technology therefore are distinctly different for these two groups of banking organisations as the latter were able to introduce technology in their operations with comparative ease as they started off at a time when excellent technology infrastructure was at their disposal and their operations were mainly restricted to the urban/metropolitan areas.

Therefore, the role of technology in the PSBs, OGPSBs has been more or less that

of a facilitator for banking convenience both from the bank and the customer's point of view. With the competition hooting up with the entry of NGPSBs and FBs, the role of IT in the PSBs, OGPSBs also underwent a facelift from that of a facilitator for convenience to that of an extreme necessity for survival.

The Information Technology scenario is extremely dynamic with the resources being subjected to a total facelift in the shortest of time spans. Information Technology brings about efficiency of operations if utilised properly and to remain competitive, appropriate technology has to be used with proper spadework.

To be in the race and to sustain the focus, there is a need for continuous updating of the IT resources. This entails that there is an absolute need to exercise judicious selection of resources to minimise the future handicaps. In other words, there has to be a perfect correlation between the business plan and the technology initiatives.

Information technology has been a facilitator as well as differentiator on its own. The banks which wait for the change in processes consequent upon introduction of IT would find it difficult to withstand the competition. Those banks that reconquer the processes to suit the changing environment will definitely have better chances of survival. (Indian Banker, Special issue, 2006)

**Mounting technology cost**

Technology as an enabler is of immense help to the banking industry to achieve the business goals set. Besides facilitating to retain /enhance the clientele base, induction of technology has been responsible for an overall reduction in transaction costs and enhancement in the productivity levels.

Selection of the most appropriate technology for a specific purpose from the lot of options available in the market is the most crucial concern and requires a long term strategy. Considering the huge financial outlay in hardware, software and network components, it is essential to ensure that the solution in the offing should meet all the specifications of the requirement. Besides, the solution should be scalable to future requirements, secure, user friendly, vendor supported and easy to handle.

**Pricing of services**

While banks make substantial investments in technology, their services are provided almost free in many areas. It is necessary to provide better quality services which are properly priced so that the technology backbone which supports such services is maintained and upgraded periodically. In the anxiety to garner more business, banks tend to under-price their services with implications on their bottom line .Pricing of various commodities has always been a very delicate issue in the Indian context.

Further, it has been a common observation over the years that the pricing of both hardware and software are on the higher side considering the situation prevalent in the IT environment wherein a lot of small, medium entities and entrepreneurs are also active in the business .Another aspect of concern in the Indian context is the high cost of Annual Maintenance Contract (AMC). Further it has also been the experience over the years that once an application /utility is based on a particular software platform, it is very difficult to come out of dependency. It has been a common practice that the software versions supported by vendors change periodically, leaving the user no other option but to migrate/upgrade to the new version as the support to the old version ceases. This up-gradation /migration is often at a cost to the user every now and then

**ROI in Banking-Quantitative or qualitative**

In the present day rigorous banking environment, a cost benefit analysis of the investments in IT, in the real sense of the term is a difficult exercise and the reasons are manifold. Most of the investments in IT, these days are not directed any more only at enhancement of business or acquisition of new clientele .The investment is increasingly resulting in only retaining the existing clientele. The customer is the kingpin of the market today and he has the liberty to go and avail of the best services available at the most economical and competent of the rates offered.

IT has brought about a transformation in the banking sector which each of the constituent Banks has to necessarily emulate to be in line with the industry standards lest they will be the odd ones out and be left far behind. Technological stagnancies are looked down upon not only by the Bank's customers but by the industry and public at large. To be constantly in news is therefore a strategy, the banks have to consciously adopt.

Innovation of IT initiatives on an ongoing basis and constant up gradation of technology offered in tune with the contemporary trends and requirements holds the key to a Bank's success .Diversification of activities is another area which needs to be accorded due attention these days. The bank has to look for alternate business opportunities relentlessly.

**Impact of IT on present day banking**

Although extensive on technology has been made by the banks, the ROI on absolute terms is still a distant possibility .Undoubtedly, qualitative benefits have accrued and the banks have acquired the infrastructure to take them confidently for the years ahead .The banks have acquired the much desired scalability and flexibility to diversify by imbibing technology.

The post liberalisation, deregulated environment has posed a lot of challenges for the banks such as slumping interest rates and thinning spread .At this juncture, technology and BPR have clear role to play and the need of the hour seems to be exploring alternate avenues to boost non interest income .One of the initiative that is gaining momentum is increasing tie-up arrangements that the banks are entering into towards optimising their financial outlay by way of IT capital and revenue expenditure. The increasing tie-up in ATM sharing is a pointer in this direction of acquiring additional non-interest income .Another area which requires more attention of the banks in the days ahead is the need to reduce transaction costs. This has to be achieved by popularising the IT based delivery channels like Tele-banking, remote customer enquiry terminals, Kiosks, internet-banking, ATMs etc so that the customers are facilitated to carry out most of the transactions without having to visit the branch premises. Besides this will ensure optional utilisation of manpower by deploying specialised assignments like Marketing.

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# CORPORATE SOCIAL RESPONSIBILITY AN EMERGING TREND IN BANKING SECTOR

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**Introduction**

Corporate social responsibility is a new emerging concept in India. In the past corporate had done business only for its profit, but competitive era it take interest in the development of society .In reality there are two way relationship between business and society and it is fully affected by them. Secondary are important but are not essential for survival such as competitor, media so business should take care of its society because it necessary for tits survival.

**Advantages of CSR**

CSR has a significant role in controlling the uncontrolled development, satisfying the need of the present generation and at the same time ensuring that the resources of future generations. Companies are more willing to report on their contributions to the maintenance of a sound environment, a healthier society or more ethical business practices through both internal and external action within the countries in which they operate. The area often lacking is CSR reporting in the area of labour right and relations. One of the prime concerns of CSR should be the quality of industrial relations within a company. One of the most significant issues within the CSR agenda concerns the dynamic relationship between CSR and good public governance.

**CSR Principles**

Business should support and respect the protection of internationally, There are not complicity in human Right abuses. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining. Elimination of all forms of forced and compulsory labour. The effective abolition Business should support a precautionary approach to environment challenges, Undertaken initiatives to promote greater environment responsibility, encourage the development and diffusion of environmentally friendly technologies. Business should be work against corruption in all its forms, business should be extortion and bribery.

**Objectives Of The Study**

1. To identify the nature and extent ion of the corporate social responsibility regarding public sectors banks.
2. Need to improve the CSR in public sector banks in India. Banks are key financial intermediaries or institutions that serve as "middle man" in the

transfer of fund from servers to those who invest in real assets as house, equipment and factories. In performing this function, financial intermediaries improve the well being of both saver and investor. By improving economic efficiency they raise living standard of the society.

1. The banking sector is considered to be an important source of financing for most of the businesses.
2. Commercial banks are the backbone of the economy of the country. It is the determinant factor to bring the development of the country. It serves as a bridge between savings and investments.
3. Commercial banks playa very important role in the effort to attain stable prices, high level of employment and sound economic growth. They make funds available to meet the needs of individuals, businesses and the government. By doing so, they facilitate the flow of goods and services and the activities of governments.
4. The commercial banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which monitory policy is conducted through their deposit mobilization and lending operations.
5. Commercial banks make the productive utilization of ideal funds, thus assists the society to produce wealth.
6 The performance of commercial banks is judged by many factors. For the sustainability of commercial banks, total assets, net profit, operating profit and interest income are very significant factor which are used to measure the performance of commercial banks.

**Competition**

The liberalized entry of private sector banks including foreign banks has an impact on the competition of the banking sector. Evidence of increased competition in the post-reform era emerges from three indicators.

1. There has been a change in the market share of public and private sector banks. It is a sign of increased competition since any changes in favor of private and foreign banks signal the extent to which these banks have been successful by offering lower prices and better services. The market shares of public sector banks in both the deposits and the advances have fallen while those of private banks have been improved.

ii) Another signal of growing competitions between public sector and private sector banks is non-bank concentration ratio. This ratio gives the total market share ofthe largest banks in the industry; it is used to measure the extent of competition in a market. Trends in the estimates of four-bank concentration ratio reveal a decline in the post-reforms period; it is due to the slower growth ofthe largest banks, all of which are in the public sector. It is also due to the increased competition from private sector banks.

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

iii) The third indicator of competition is the quality and range of customer services. There are indicators that the scope and intensity of such competition has certainly increased since the reforms. This is manifested in rapidly increasing use of computer and telecommunication technology by public sector bank in order to provide improved and faster banking services, similar to those provided by private sector and foreign banks. Greater emphasis is also now being paid on value added services such as credit cards and merchant banking. As a manifestation of increased competition, a number of public and private banks have been setting up ATM's introducing tale-banking, providing specialized services and introducing credit card operations. An additional indication of increased quality competition is in the attempt of banks to seek quality certification ISO 9000 from international organizations.[10]

In this context, it will be very useful to undertake a synoptic view of there searches conducted in this field of lending operations of financial institutions policies and practices and the role of financial institutions in Banking Sectors in particular. So, this will indicate the areas in which present research could concentrate more profitably.

**Data Sources**

The primary and secondary data sources are used in this study. The yearly reports and publication of RBI, Punjab National Bank and ICICI articles published in, various business newspapers, journals and books on financial services and banks management are the secondary sources from which the data has been collected and information browsed from related website.

**Review of literature**

An attempt has been made to provide a precise and comprehensive account of the observations of the various studies covering a period of 20 years (1987-2007).Terrenee Levesque & Garden H.G.Me Dougall (1996) study's "Determinants of costumer satisfaction in retail banking" major was to identify the drivers of costumers satisfaction in retail banker and used the technique called SERVQUAL. The data was gathered from the memo church congregation & get response of 325 question arises out of 400 distributed They pointed out the costumer satisfaction and retention is critical for retail navigators. The major determinants of costumers satisfaction & future inventions in the it banking & identified the determinants which include service quality dimensions, ice features, service problems, service recovery and products used and above all found t service problems & bank service recovery ability have a major impact on costumers satisfaction & invention to switch. Berger and Humphrey(1997) argue that it may be fruitful to explore the effect of customer type on banks efficiency by dividing banks into retail and wholesale banks. They remarked into neither of two approaches by itself captures the dual role of financial institutions to provide

transactions services to act as financial intermediaries.

**SHRIVASTAVA, R.M. (1997)**

Studied management and organizational set up of financial institutions and their operational polices & practices. He found that there is a greater departmentalization and delegation among the all India Financial institutions than in the state level financial institutions. He pointed out that in spite of good organizational structure the financial institutions are lagging behind professional people, especially in project appraisal field. He round that all India Financial institutions are facing problem of resource crunch, therefore, there is a gap in financing various projects. He suggested that these organizations should raise funds from open market to diversify their product line. Further, he suggested that the lending policies should be more liberalized so that the industry can obtain financial assistance from these institutions at right time. He also suggested that the management of these institutions should be in the hands of professional experts.

**SARKAR AND DAS (1997)**

Examined the inter-bank differences in the efficiency levels of banks in India using balance-sheet data for 1994-95 and observed wide variation in the performance among banks based on indicators of profitability, productivity and financial management. The most important observation was that no significant efficiency measure differences between public and private banks.

**LINDA WENGAL (1998)**

Study on "Customer satisfaction Research" show that banks are increasingly aware that assessing their customers satisfaction with the quality of service is the key ingredient in customer retention customer satisfaction measurement tools include mail surveys, telephonic interview, close-account survey, one to one interview and focus group interviews.

**WALFRIED AND LASSAR, DIRK MANOLIR, ROBERT D.WINSAR (2000)**

In their paper entitle "Service quality perspectives 8,E satisfaction in private banking" examine the effective of service quality on customer satisfaction from two distinctive methodological perspectives. A study of utilizing a sample of International private banking customers in conducted where in service quality is operational via Two distinct 8,L well known measures SERVQUAL & Technical/ functional quality .This search examines the potential utility of employing separate measures for customers satisfaction from the perspectives of both technical and functional aspects of the service delivery process.

**G.,S.SURESHCHANDER, (HANDRASE KHARAN RAJANDRAN, R.N. ANANTHARAMAN (2002)**

In their study entitled "Determinants of customer- perceived service quality: A confirmatory factor analysis approach" used SERVQUAL instrument

84 data has been collected from 150 customers of various banks in India. The research work proposes a comprehensive model & an instrument framework for measuring customer perceived service quality.

Rajesham Ch. Dr. and Rajender K. Dr (2007) found that the NPAs have negative impact on the productivity, achievement of capital adequacy level, funds deployment and mobilization policy, credibility of the banking system and overall economy and concluded that a strong political will only be able to find satisfactory solution to the problem of mounting level of NPAs and will become financially strong under the competitive and global turbulent business environment.

**Corporate Social Responsibility In Context Of Banking**

"There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners,

Self-employed and those employed in the unorganized sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis."

The social responsibility of banks can hardly be in doubt and is inherent in the services. They provide as safe repositories of public deposits, suppliers of credit to individuals and institutions to support enterprise and fuel economic development, providers of payment and settlement systems and a variety of other related services. In India, social responsibility ofthe banking sector was the underlying philosophy for the nationalization of major banks.

RBI would implement policies to encourage banks, which provide extensive services while disincentivising those, which are not responsive to the banking needs ofthe community, including the underprivileged.

The nature, scope and cost of services would be monitored to assess whether there was any denial, implicit or explicit, of basic banking services to the common person.

**BANKING SERVICESAS ON 31ST DECEMBER 2007**

| Category | March | March | December |
|---|---|---|---|
| | 31.2.2006 | 31.2007 | 31.2007 |
| Public Sector Banks | 332,878 | 5,865,419 | 11,202,429 |
| Private Sector Banks | 156,388 | 856,495 | 1,558,937 |
| Foreign Banks | 231 | 2,753 | 28,286 |
| Total | 493,397 | 6,724,667 | 12,789,6526 |

Government of, Andhra Pradesh has played a pioneering role in routing government payments through banks that make use of business correspondents

and deploy mobile banking technology to provide banking facility at the doorsteps of the villages. The pilot has been successful and is up-scaling rapidly. Reserve Bank had constituted a committee to address some of the issues related to electronic benefit transfer and the findings of the committee have been placed in the public domain. Technologies. like remote area ATMs, biometric smart cards, and hand held connectivity devices are being tried by different institutions.

Pilots have been carried out successfully in certain other states, such as Karnataka, Maharashtra, Uttarakhand and Mizoram. These projects are expected to be upscale in the near future. In order to the RBI in Right earnest and a collaborative approach has been adopted.

The process of refining the existing systems, innovating delivery models is an on-going one and there is concerted action taking place with initiatives from Government, RBI, banking industry and other intermediaries. Therefore, in the foreseeable future the prospects of greater Financial Inclusion look promising.

It is important, it this juncture, to sound a note of caution. In our-Auest for providing access to finance to the unbaked and underserved sectors, we should constantly remind ourselves that we are trying to reach out to a section of our society that is weak and vulnerable.

Hence-.it is necessary that the systems that we put in -place are sound in all respects and are appropriately regulated and supervised. It is important that practices adopted by banks and their charges are perceived as fair and reasonable. Conclusion 5; liana .the CSR program men a mixture of economic, legal ,ethicai environment .in Indian context the CSR measure the policies and practice in the public sector and private sector banks .It show the great deal of opportunity for the companies of both sectors re-garding competition in the banking services. Further, the CSR program to be advantages in :he both banking sector as well as private business houses to make better knowledge and sense to can prove the betterment in the need of baking services.

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# Concept and Practice of Corporate Governance Practice in India: A Study of Private Banks

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Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. Corporate governance is about minimizing the loss of value that results from the separation of ownership and control. It deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. While corporate governance has been a hot issue in recent years (Enron, Worldcomm, HIH and One.Tel) it is a problem that has been around for hundreds of years – Adam Smith (1776).

**History of Corporate Governance in India**

- Unlike South-East and East Asia, the corporate governance initiative in India was not triggered by any serious nationwide financial, banking and economic collapse
- Also, unlike most OECD countries, the initiative in India was initially driven by an industry association, the Confederation of Indian Industry
  - In December 1995, CII set up a task force to design a voluntary code of corporate governance
  - The final draft of this code was widely circulated in 1997
  - In April 1998, the code was released. It was called Desirable Corporate Governance: A Code
  - Between 1998 and 2000, over 25 leading companies voluntarily followed the code: Bajaj Auto, Hindalco, Infosys, Dr. Reddy's Laboratories, Nicholas Piramal, Bharat Forge, BSES, HDFC, ICICI and many others
- Following CII's initiative, the Securities and Exchange Board of India (SEBI) set up a committee under Kumar Mangalam Birla to design a mandatory-cum-recommendatory code for listed companies
- The Birla Committee Report was approved by SEBI in December 2000
- Became mandatory for listed companies through the listing agreement, and implemented according to a rollout plan
- Following CII and SEBI, the Department of Company Affairs (DCA) modified the Companies Act, 1956 to incorporate specific corporate governance provisions regarding independent directors and audit committees
- In 2001-02, certain accounting standards were modified to further improve

financial disclosures. These were:

- Disclosure of related party transactions
- Disclosure of segment income: revenues, profits and capital employed
- Deferred tax liabilities or assets
- Consolidation of accounts

- Initiatives are being taken to (i) account for ESOPs, (ii) further increase disclosures, and (iii) put in place systems that can further strengthen auditors' independence

**Constituents of Corporate Governance**

- The Board of Directors
    - Pivotal role
    - Accountable to stakeholders
    - Directs management
- The Shareholders & Stakeholders
    - To participate in appointment of directors
    - To hold the BoD accountable for governance through proper disclosures
- The Management
    - To act on the direction of the BoD
    - To provide requisite information to the BoD for decision making

**Disclosure Based Regulation**

Components & types of disclosures

- Initial Disclosures – Disclosures for raising capital by companies, mutual funds in offer documents
    - Public Offers
    - Private Placement
- Continuous disclosures – financial / non-financial
- Frequency of disclosure
- Dissemination process – electronic, physical, centralised, dispersed
- Accessibility of information
- Initial Disclosures
- Continuous disclosures
- Corporate Governance
- Financial disclosures
- Risk based disclosures for intermediaries
- Disclosures for stock exchanges

**Disclosures**

Board of Directors: information that must be supplied

- Annual, quarter, half year operating plans, budgets and updates

- Quarterly results of company and its business segments
- Minutes of the audit committee and other board committees
- Recruitment and remuneration of senior officers
- Materially important legal notices and claims, as well as any accidents, hazards, pollution issues and labor problems
- Any actual or expected default in financial obligations
- Details of joint ventures and collaborations
- Transactions involving payment towards goodwill, brand equity and intellectual property
- Any materially significant sale of business and investments
- Foreign currency and other risks and risk management
- Any regulatory non-compliance

Legal Systems on Corporate Governance in Different Economy

| Country | Legal System | Protection | Rule of Law |
|---|---|---|---|
| Australia | Common law | 4 | 10 |
| France French | Civil law | 2 | 8.98 |
| Germany German | Civil law | 1 | 9.23 |
| India | Common law | 5 | 4.17 |
| Japan German | Civil law | 4 | 8.98 |
| Korea German | Civil law | 2 | 5.35 |
| Philippines French | Civil law | 3 | 2.73 |
| Netherlands French | Civil law | 2 | 10 |
| UK | Common law | 5 | 8.57 |
| USA | Common law | 5 | 10 |

**Corporate Governance Practices**

1. The corporate governance framework should protect shareholders rights.
2. The corporate governance framework should ensure the equitable treatment of all shareholders.
3. Stakeholders should be involved in corporate governance.
4. Disclosure and transparency is critical.
5. The board of directors should be monitored and held accountable for what guidance it gives.

**Corporate Governance and ESOP**

The organizations try to get standard level of profitability by employed modern profitability tools in business operation. **CORPORATE GOVERNANCE** is the system by which companies are directed and controlled by the management in the best interest of the shareholders, workforce and others ensuring greater transparency and better and timely financial reporting. The Board of Directors is responsible for governance of their companies for raising profitability. The profitability is red blood of organization which leads to development and prosperity in modern fierce competitive world. An ESOP provides a way for

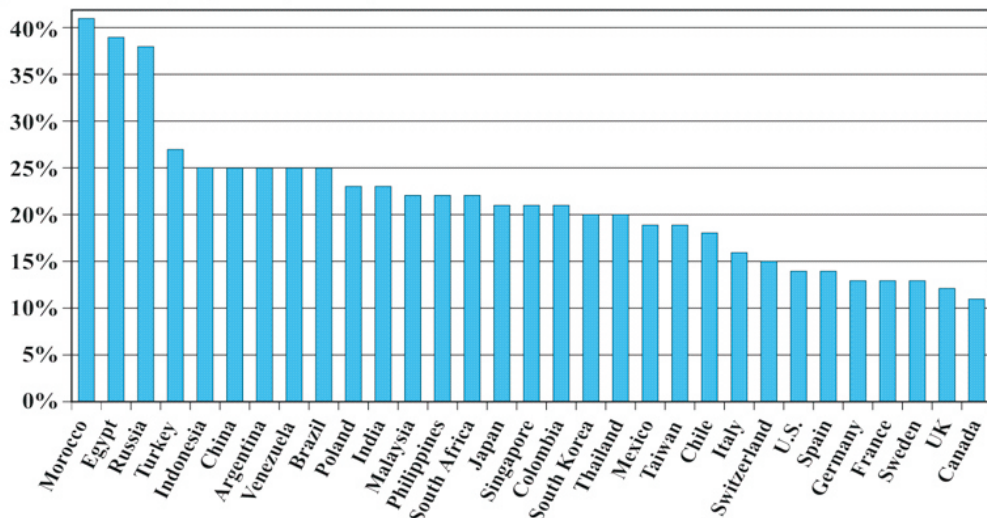
employer and their employees to achieve the apex tail of profitability in chaos and growth of the business. In some cases, employees can use an ESOP to acquire the whole of a business. This is technique of restructuring of the business unit with the involvement of employees. The remarkable effect of ESOP is positive in terms of productivity on thousands of enterprises as observed. It is thought that financial participation schemes provide employees with incentives to work more and better, communicate information to management and colleagues and co-operate with each other. A growing body of evidence suggests that both main forms of financial participation have greater productivity effects when employees are well informed of the affairs of the firm, there is good communication with management, and employees participate in governance and decisions. Most research on employee ownership shows positive effects. These studies show that employee owned firms are more productive and profitable, survive longer, and result in better shareholder returns. Adoption of ESOPs result in better post-adoption performance compared to pre-adoption performance and also compared to matched firms. Studies indicate nearly two-and-a-half percentage greater annual sales and employment growth among ESOPs as compared to conventional counterpart firms.

**Measuring Corporate Governance**

- Understanding what good corporate governance is about is quite easy. However, it is difficult to measure whether companies are really committed to good governance.
- All we can do is measure if they have certain corporate governance mechanisms in place – we don't know if they are effective or not!

Organizations such as Standard and Poor and Credit Lyonnais Securities Asia have started providing corporate governance ratings in recent years.

EXHIBT - 1
The Value of Good Governance




**Empirical Research Methodology**

The whole study period divided into two parts pre-adoption period and pos-adoption period of 3 years each. Further different ratios of Assets, Net Assets,

Income, Other Income, Expenditure, Operating Expenses, Gross Profit and Net Profit on per employees basis for pre-adoption period and post-adoption period for all the seven banks are calculated. The study under consideration used seven banks which already implemented ESOP for the benefits of its workforce or to enhance its profitability before 2005.

**Research Objective**

The study would like to achieve the following objectives to make the output more effective in the field of finance.

- To measure the post-financial performance of Indian private banking sector with reference to corporate governance.

**Hypothesis of the Research**

In order to achieve the above said objectives, the study will endeavor to test the following hypotheses.

**$H_{01}$: The post-financial performance of Private banking sector remains unchanged due to the implementation of ESOP.**

**Data Sources and Sample Size**

To measure the post-financial performance of Indian ESOP banking sector, the study under consideration will used seven private (7) Indian banks which already implemented ESOP for the benefits of its workforce or to enhance its financial performance. The names and year of implementation of all such Indian private bank are given below.

| Sr. No. | Name of the Bank | Year |
|---|---|---|
| 1 | Kotak Mahindra Bank | 2003 |
| 2 | AXIS Bank | 2001 |
| 3 | The United Western Bank Limited | 2001 |
| 4 | The ABN AMRO Bank | 2005 |
| 5 | ICICI Bank | 2003 |
| 6 | HDFC Bank Limited | 2000 |
| 7 | ING Vysya bank | 2001 |

The pre-adoption period has taken 3 years before the ESOP implementation in the study whereas the 3 years also decided for the post-ESOP adoption. The secondary information is used in order to get the empirical results. For measuring the post-financial performance, the statistics so collected from different sources namely research journals, Business Standard, The Economic Times, The Financial Express, periodicals and further analysis with two time window i.e. pre-adoption period and post-adoption period. It is assumption that any changes will be recorded in post-adoption period is due to the adoption of ESOP.

IJMR
ISSN : 2321-1709
*(Oct.-Dec., 2013)*
*Vol. I No. 2*



Table - 1 : Consolidated Average Profitability Performance of Private Indian Banks

| | Pre – Adoption Window | | | | | | | | Post – Adoption Window | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Variables | HDFC Bank | AXIS Bank | UWB Ltd | ING Vysya | ICICI Bank | KMB Ltd | The ABN, | μ | HDFC Bank | AXIS Bank | UWB Ltd | ING Vysya | ICICI Bank | KMB Ltd | The ABN, | μ |
| TAE | 2.975 | 4.080 | 1.508 | 1.168 | 7.107 | 3.206 | 0.858 | 2.960 | 6.125 | 7.917 | 1.853 | 2.201 | 10.93 | 5.375 | 0.894 | 5.040 |
| NAE | 0.058 | 0.054 | 0.055 | 0.038 | 0.168 | 0.084 | 0.202 | 0.090 | 0.105 | 0.092 | 0.078 | 0.040 | 0.411 | 0.068 | 0.127 | 0.130 |
| IE | 0.350 | 0.354 | 0.108 | 0.131 | 0.670 | 0.572 | 0.123 | 0.320 | 0.368 | 0.740 | 0.145 | 0.237 | 0.788 | 0.765 | 0.204 | 0.460 |
| OIE | 0.061 | 0.060 | 0.016 | 0.020 | 0.114 | 0.234 | 0.045 | 0.070 | 0.087 | 0.191 | 0.045 | 0.063 | 0.213 | 0.410 | 0.077 | 0.150 |
| EE | 0.243 | 0.280 | 0.051 | 0.114 | 0.597 | 0.234 | 0.071 | 0.220 | 0.449 | 0.540 | 0.111 | 0.192 | 0.756 | 0.410 | 0.156 | 0.370 |
| OEE | 0.073 | 0.050 | 0.015 | 0.023 | 0.092 | 0.240 | 0.067 | 0.080 | 0.116 | 0.113 | 0.035 | 0.059 | 0.163 | 0.434 | 0.144 | 0.150 |
| GPE | 0.100 | 0.073 | 0.058 | 0.018 | 0.163 | 0.136 | 0.052 | 0.08 | 0.116 | 0.202 | 0.043 | 0.045 | 0.172 | 0.182 | 0.048 | 0.110 |
| NPE | 0.070 | 0.033 | 0.012 | 0.008 | 0.075 | 0.070 | 0.011 | 0.030 | 0.079 | 0.080 | 0.009 | 0.013 | 0.097 | 0.117 | 0.014 | 0.050 |
| Student Test | Paired-samples t – test and same tested at = 5% level of risk | | | | | | | | -1.33 | -1.32 | -1.50 | -1.33 | 1.22 | 1.45 | -1.53 | -1.30 |

**No any value significant at α = 5%**

The t–value for the HDFC bank is -1.33 whereas -1.32 for AXIS bank ltd. which is not statistically significant at α = **0.05** level of risk. Moreover the t – value for ICICI bank is -1.22 whereas -1.30 for average profitability performance of seven banks of the study which are not significant at five percent (α **= 0.05)** level of risk. Thus null hypothesis is accepted that post-financial performance of India private banking sector did not improve significantly after adoption of ESOP.

**Conclusion**

**Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.** The profitability is red blood of organization which leads to development and prosperity in modern fierce competitive world. An ESOP provides a way for employer and their employees to achieve the apex tail of profitability in chaos and growth of the business. In some cases, employees can use an ESOP to acquire the whole of a business. This is technique of restructuring

of the business unit with the involvement of employees. The remarkable effect of ESOP is positive in terms of productivity on thousands of enterprises as observed. It is thought that financial participation schemes provide employees with incentives to work more and better, communicate information to management and colleagues and co-operate with each other. Evidence suggests that profit-sharing probably has a slightly stronger effect than employee share ownership on total factor of productivity. Thus null hypothesis is accepted that post-financial performance of private banking sector did not improve significantly after implementation of a good corporate governance practice known as ESOP.

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# IFRS in INDIA: Applicability And Implementation

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## Introduction-

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particulalrly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards.The rules to be followed by accountants to maintain books of accounts which is comaprable, understandable, reliable and relevant as per the users internal or external.

IFRS began as an attempt to harmonise accounting across the European Union but the value of harmonisation quickly made the concept attractive around the world. They are sometimes still called by the original name of **International Accounting Standards**(IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the Standards. During its first meeting the new Board adopted existing IAS and Standing new IASB took over from the IASC the responsibility for setting International Accounting Interpretations Committee standards (SICs).

On January 22, 2010, the Ministry of Corporate Affairs issued the road map for transition to IFRS. It is clear that India has deferred transition to IFRS by a year. In the first phase, companies included in Nifty 50 or BSE Sensex, and companies whose securities are listed on stock exchanges outside India and all other companies having net worth of INR 1000 crore will prepare and present financial statements using Indian Accounting Standards converged with IFRS.

According to the press note issued by the government, those companies will convert their first balance sheet as at April 1, 2011, applying accounting standards convergent with IFRS if the accounting year ends on March 31. This implies that the transition date will be April 1, 2011. According to the earlier plan, the transition date was fixed at April 1, 2010.

The press note does not clarify whether the full set of financial statements for the year 2011–12 will be prepared by applying accounting standards convergent with IFRS. The deferment of the transition may make companies happy, but it will undermine India's position. Presumably, lack of preparedness of Indian companies has led to the decision to defer the adoption of IFRS for a year. This is unfortunate that India, which boasts for its IT and accounting skills, could not prepare itself for the transition to IFRS over last four years. But that might be the ground reality.

Transition in phases Companies, whether listed or not, having net worth of more than INR 500 crore will convert their opening balance sheet as at April 1, 2013. Listed companies having net worth of INR 500 crore or less will convert their opening balance sheet as at April 1, 2014. Un-listed companies having net worth of Rs 500 crore or less will continue to apply existing accounting standards, which might be modified from time to time. Transition to IFRS in phases is a smart move. The transition cost for smaller companies will be much lower because large companies will bear the initial cost of learning and smaller companies will not be

required to reinvent the wheel.

However, this will happen only if a significant number of large companies engage Indian accounting firms to provide them support in their transition to IFRS. If, most large companies, which will comply with Indian accounting standards convergent with IFRS in the first phase, choose one of the international firms, Indian accounting firms and smaller companies will not benefit from the learning in the first phase of the transition to IFRS.

It is likely that international firms will protect their learning to retain their competitive advantage. Therefore, it is for the benefit of the country that each company makes judicious choice of the accounting firm as its partner without limiting its choice to international accounting firms. Public sector companies should take the lead and the Institute of Chartered Accountants of India (ICAI) should develop a clear strategy to diffuse the learning. Size of companies

The government has decided to measure the size of companies in terms of net worth. This is not the ideal unit to measure the size of a company. Net worth in the balance sheet is determined by accounting principles and methods. Therefore, it does not include the value of intangible assets. Moreover, as most assets and liabilities are measured at historical cost, the net worth does not reflect the current value of those assets and liabilities.

Market capitalisation is a better measure of the size of a company. But it is difficult to estimate market capitalisation or fundamental value of unlisted companies. This might be the reason that the government has decided to use 'net worth' to measure size of companies. Some companies, which are large in terms of fundamental value or which intend to attract foreign capital, might prefer to use Indian accounting standards convergent with IFRS earlier than required under the road map presented by the government. The government should provide that choice.

## Review of Literature:

Convergence of International accounting standards with the Indian GAAP is a must for placing India on the global platform. For this, Indian accountants, auditors and finance professionals should be made aware about the various aspects of International Financial Reporting Standards. The level of readiness of Indian companies should be found out so that appropriate measures can be taken for successfully implementing IFRS in India in a timely manner.

**Krishnamurthy, Mahesh**, **2009**, "conducted a survey and found that 27% of the blue chip foreign and Indian companies are ready for the conversion of IFRS form Indian GAAP. Nearly 60% of the respondents complained that critical factors for a cost-effective conversion have been overlooked

**D'souza, Dolphy**, 2009, "stated that regulatory approvals are must for the successful implementation of IFRS in India and so the RBI, IBA should align their policies according to the requirements of the international standards."

***Samir S. Mogul*** **International** community has long back recognized the need for moving towards harmonization of the accounting standard across the globe. Obviously on individual country is always entitled to customize the existing international accounting Standards according to its specific needs. Among other advantages of harmonization of accounting standards, the two benefits which tops the list are (a) systematic review and evaluation of the performance of the multinational company having subsidiaries and associates in various countries wherein each country has its own set of GAAP and (b) It provides a level playing fields where no country is advantaged or disadvantaged because of its GAAP. Besides D.S Rawat, R P Rustagi, Alexander, have given insight regarding Accounting world. **In this paper an attempt is made to find out the extent of applicability of IFRS in India and the level of complexity faced by various professional and companies regarding its implementation.**

**Objectives of the study**

1. To find out the level of acceptance of International Financial Reporting Standards (IFRS) in India.
2. To find out the extent of awareness among Indian accountants, finance professionals, auditors and academicians regarding the process of convergence with IFRS and the fields in which tutorials are required.
3. To focus on the problems impeding the process of implementation of IFRS in India.
4. To suggest measures and give ideas for conducting smooth convergence.

**Need of the study**

Adoption of IFRS, the new global reporting standards, would improve comparability, transparency and credibility of financial statements and in a globalize world, would lead to greater economic efficiencies.

In India too, the IFRS will be adopted only for the listed entities and other public interest entities such as banks and insurance companies, it said. The introduction of IFRS represents a fundamental change in financial reporting, it said, adding planning for it, generating the necessary awareness, educating stakeholders and managing the required changes will take considerable management commitment and time to achieve a successful transition.

Due to Globalization Foreign Capital has crept into the domestic market. The different disclosure requirements for listing purposes have hindered the free flow of capital. This has also led to failure in comparison of financial statements of companies of different countries.Inorder to have one accounting language many Countries around the globe have switched to IFRS and following their track ICAI has also decided to implement IFRS in India from April 2011.

The problem is to have an understanding of the new accounting standards which are going to be implemented soon along with the awareness level of the employees and the clients of various companies.Although many programmes have been started inorder to train the professionals but still there is a lack of understanding on the content of the accounting standards.

Research Methodology -The type of research is descriptive and applied. Convenience sampling has been adopted for the survey. Data has been collected from the primary as well as secondary sources. The survey has been conducted through the online Questionnaire method and data has been collected from some business sites. Most of the questions are close-ended with a few open-ended questions. The respondents are either accountants, auditors, academicians or finance professionals who are directly related to the transition process. The sample size selected was 350 but due to unwillingness and unawareness only 180 people responded to the questionnaire .The data collected through online are presented in the following ways:

- Pie charts
- Bar charts

**Relevance of the study**

A financial statement should reflect true and fair view of the business affairs of the organization. As statements are used by various constituents of the society / regulators, they need to reflect true view of the financial position of the organization. and it is very helpful to check the financial position of the business for a specific period.

**IFRS authorize three basic accounting models**

I. Current Cost Accounting,

Under Physical Capital Maintenance at all levels of inflation and deflation under

the Historical Cost paradigm as well as the Capital Maintenance in Units of Constant Purchasing Power paradigm. (See the Conceptual Framework, Par. 4.59 (b).)

II. Financial capital maintenance in nominal monetary units, i.e., globally implemented Historical cost accounting during low inflation and deflation only under the traditional Historical Cost paradigm.(See the original Framework (1989), Par 104 (a))[now Conceptual Framework (2010), Par. 4.59 (a)].

III. Financial capital maintenance in units of constant purchasing power, i.e., Constant Item Purchasing Power Accounting[5] – CIPPA – in terms of a Daily Consumer Price Index or daily rate at all levels of inflation and deflation (see the original Framework (1989), Par 104 (a)) [now Conceptual Framework (2010), Par. 4.59 (a)] under the Capital Maintenance in Units of Constant Purchasing Power paradigm and Constant Purchasing Power Accounting – CPPA – (see IAS 29) during hyperinflation under the Historical Cost paradigm.

The following are the three underlying assumptions in IFRS:

- 1. Going concern: an entity will continue for the foreseeable future under the Historical Cost paradigm as well as under the Capital Maintenance in Units of Constant Purchasing Power paradigm. (See Conceptual Framework, Par. 4.1)
- 2. Stable measuring unit assumption: financial capital maintenance in nominal monetary units or traditional Historical cost accounting only under the traditional Historical Cost paradigm; i.e., accountants consider changes in the purchasing power of the functional currency up to but excluding 26% per annum for three years in a row (which would be 100% cumulative inflation over three years or hyperinflation as defined in IAS 29) as immaterial or not sufficiently important for them to choose Capital Maintenance in units of constant purchasing power in terms of a Daily Consumer Price Index or daily rate Constant Item Purchasing Power Accounting at all levels of inflation and deflation as authorized in IFRS in the original Framework(1989), Par 104 (a) [now Conceptual Framework (2010

**Limitations of the study:**

1. One of the main limitations is the sample size which is relatively low because of the complexity of the International Financial Reporting Standards. Though the survey is totally authentic, yet the findings may be a bit skewed due to the limited sample size.
2. Time and cost was also another of the constraints. Due to this constraint I had to conduct the survey on the basis of convenience sampling.
3. Due to lack of awareness respondents were unwilling to participate in the survey.

**Analytical study of Accounting Standards setting bodies in India**

Following are the bodies responsible for setting up AS.

- ICAI-: The institute of chartered accountants of India on April 21, 1975 established accounting standard board. The main function assigned to the ASB was to formulate accounting standards from time to time. However ICAI with ASB is carrying a good work of formulation and issuance of accounting standards. The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949) for the regulation of the profession of chartered accountancy in India

- Accounting Standard and SEBI:- Securities and Exchange Board of India was established in 1982 and it deals with the formulation of laws, by –laws, rules and amendments for the purpose of giving smooth and strong support to stock market. SEBI also focuses on protecting to interest of investor.
- Accounting Standard and Income Tax Act 1961 -: Section 145 of the income tax Act 1961 deals with the method of accounting to be adopted for computing the income under the head of "Profit and gains from business and Profession. The finance Act 1995 had amended section 145 w.e.f. from 1st April 1997.
- Accounting standard and company law-:Accounting standards and company bill 1997, 415(2) of the company's bill 1999 now (withdrawn) proposed prescription of accounting standard by the central government in consultation with the national Advisory committee on Accounting Standards (NACAS) established with sub- clause of the clause 415, companies bill 1997 defines Accounting Standards to means standards of Accounting recommended by the institute of chartered Accountants on India constituted under the chartered Accountants Act 1949 as may be prescribed by the control government in consultations with NACAS, established under sub-section (1) of the clause 415, companies bill 1997 define.

**IFRS in India –Acceptance and Implementation**

India will comply with IFRS by 2011; this will bring uniformity in financial statement and reduce the level of complexity. The process of conversion seems to be very smooth but in reality it is difficult to have smooth conduction of IFRS. Assimilating IFRS is difficult because of fundamental differences between national and international latitudes and practices that arise from diverse historical, cultural and legal traditions." Following are the reason why IFRS implementation is different from reality

1. The first reason why there is disagreement for the switch to IFRS is that the standards introduce uncertainty in the evaluation of financial standards. It raises uncertainty because international financial reporting standards permit managers to exercise their own judgment when deciding what to report in their financial statements..
2. Secondly, some people dislike the switch because unlike GAAP, there isn't much enforcement with IFRS. Unlike GAAP, which has several organizations such as the Securities and Exchange Commission that watches over its accounting rules, IFRS does not. There isn't a global organization such as the SEC that watches over the international standards..
3. Another disadvantage for the companies switching to International financial reporting standards is that it is hard to compare financial statements.
4. Analysis and Interpretations

   With the help of the online questionnaire an attempt has been made to find out the extent of acceptability and difficulty related with IFRS.

In analyzing the questionnaire pie charts, bar charts have been used and results have been displayed in % rather than counts. Following is the analysis of questionnaire:-.

| Phase | Date | Coverage |
|---|---|---|
| Phase 1 | Opening Balance Sheet as at April 1, 2011 | Companies which are part of NSE Index-Nifty 50.<br>Companies which are part of BSE Index-BSE 30.<br>Companies whose shares or securities are listed on a stock exchange outside India.<br>Companies, whether listed or not, having net worth of more than INR 1000 crores. |
| Phase 2 | Opening Balance Sheet as at April 1, 2013 | Companies not covered in Phase 1 and having net worth exceeding INR 500 crores. |
| Phase 3 | Opening Balance Sheet as at April 1, 2014 | Listed companies not covered in the earlier phases. |

Tables 1 :

The phases of IFRS conversion are as follows:

If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of the immediately following financial year.

**Question -1 Do you know that India will comply with IFRS in 2011**

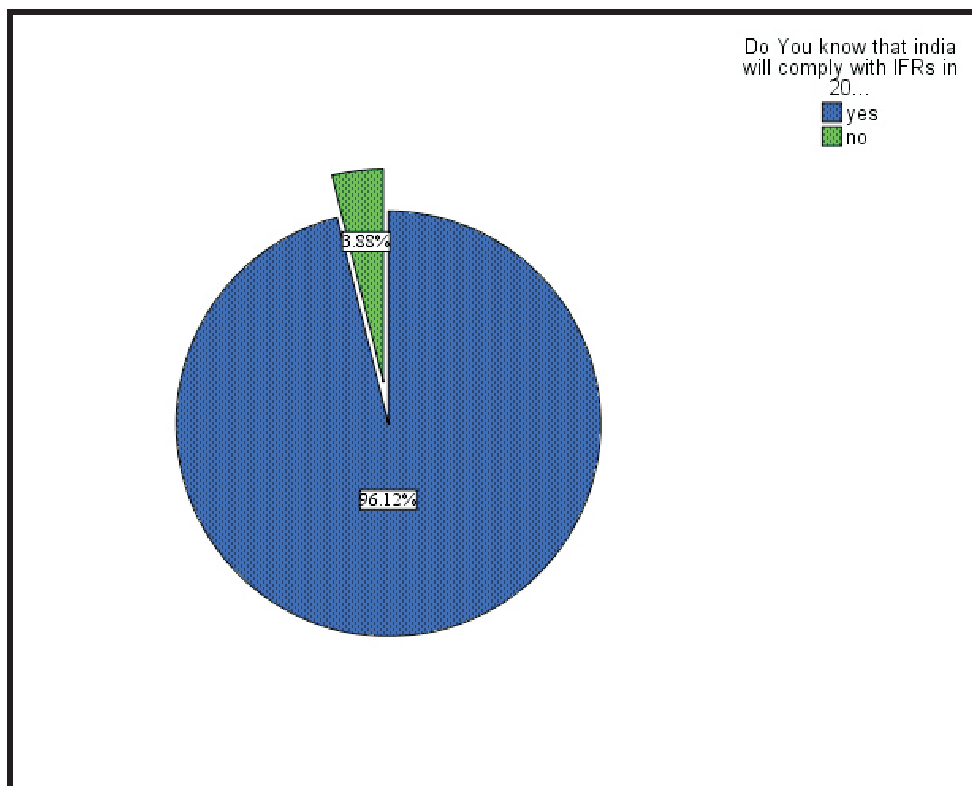

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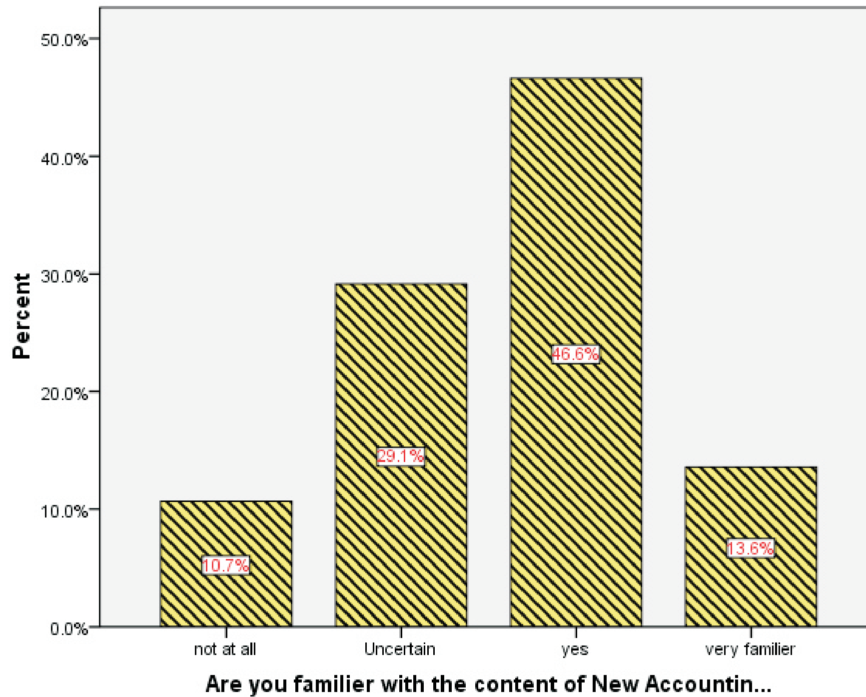
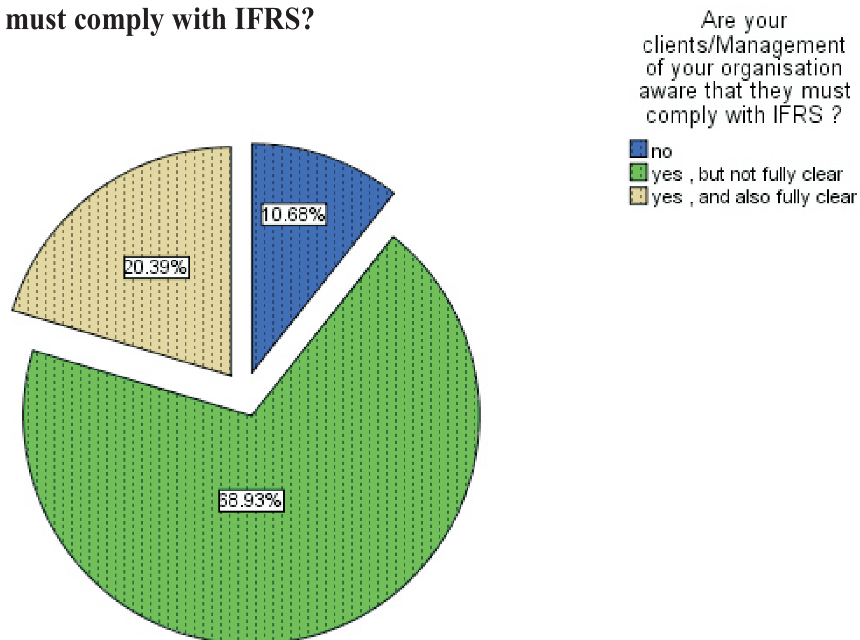
Chart –I shows asking the question to the respondent that are they aware that India will comply with IFRS in 2011 majority of the respondent were aware about it as above chart shows that 96.12 % knew about it while 3.88 % were unaware about this.

**Question -2 Are you familiar with the content of New Accounting Standards ?**



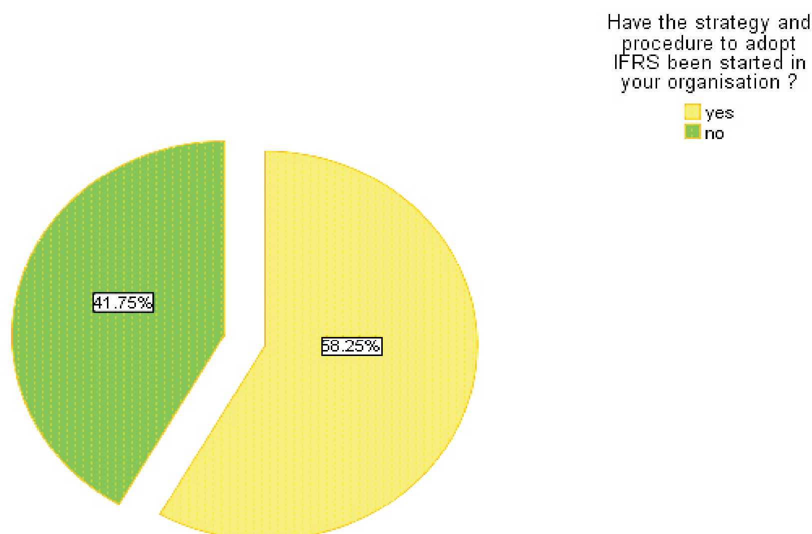

Though the majority of the respondent are aware about the implementation of IFRS in 2011 but when they were asked about the knowledge regarding content of IFRS very few people were very familiar . As per this chart 10.7% don't know about the contents of IFRS , 29.1 % are uncertain , 46.6 know about IFRS and 13.6 are very familiar about the content of IFRS .

**Question -3Are your client / management of your organization aware that they must comply with IFRS?**

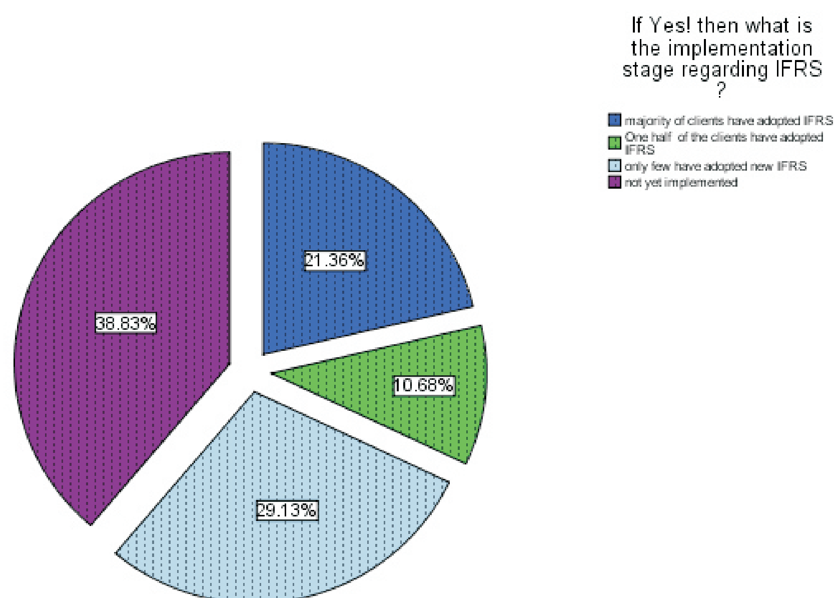



This question has been asked to know the status of awareness regarding implementation of IFRS in the organization of the respondents ,10.68% responded negative , 68.93% said that yes the management is aware but not fully clear and 20.39% said that yes management knows and also

**Question-4 have the strategy and procedure to adopt IFRS been started in your organization?**




When asked that has the process of implementation been started in their organization/ firms, 41.75% said yes and 58.25% said no.




This question is in continuation with question no. 4 those who responded yes regarding the status of IFRS in their organization. 21.36 % said that majority of clients have adopted IFRS,10.66% said that only half of the clients have adopted IFRS, 29.13 said that only few clients have adopted IFRS and 38.83% said though the strategy to adopt IFRs has been started but yet it has not been implemented in their organization .

**Question 5: What are the major problem faced by clients/management of the organization regarding implementation of IFRS?**

when asking about the difficulty faced regarding implementation of IFRS Majority of respondent i.e. 64.08 % said there is lack of knowledge related with IFRS , 19.42 % said that implementation of IFRS will increase time , cost and work . Further 16.50 % said that there is lack of sufficient human resources i.e. finance experts in the area of accounting standards and IFRS. In reality we can say that adoption of IFRS will not be a very smooth process initially we need to train the people because there is lack of people who are expert in the area of IFRS.

**Question 6: Will the implementation of IFRS be a smooth process?**

The implementation of IFRS will not be a very smooth process though the majority of people i.e. 50.49% say that implementation will be somewhat smooth .only 33.01% says that it will be very smooth rest 16.50 says that implementation will not at all be a smooth process. According to them the reason behind this is lack of knowledge , awareness , complexity of standards , lack of training etc. Still the efforts are made to make it somewhat smooth. Indian corporate sector is vary vast and adopting IFRS without any difficulty will be a complex task

**Question 7: Please indicate the factors which hinder the smoothness in implementation of IFRS**

the views of respondent what they feel about factors which hinder the smoothness of IFRS .Majority of respondent , 46.60% say that staff in unfamiliar with IFRS .4.85% people say the implementation of IFRS is inappropriate,26.21% say that the standards are very complicated and lengthy and 22. 33% say that there is shortage of sufficient reference material and training related with IFRS

**Question 8: If you have any query regarding IFRS whom would you, turn to, for answer?**

when the respondent were asked about acquiring knowledge about IFRS ,majority of respondent approx .39.81% said that they will ask from a professional body in which they are member .29.13% said that they will ask from the colleague within the profession .19.42% said they will go to ICAI and 11. 65% said that they will go to academic institutions.

**Question 9: Do you consider whether IFRS being adopted provide adequate coverage?**

As per the above chart majority of the respondents ,61.17% ,say that IFRS provide adequate coverage and adoption of IFRS will bring harmony among the financial statements of various countries which is vary important in the era of globalization . Where as 38.83% respondent say that IFRS does not provide full coverage and it should be modified and should incorporate some other standards too.

**Question 10: Please choose the area you consider should also be included in the standards**

When asked about the areas the respondents want IFRS should incorporate, 57.26% people say that IFRS should incorporate all remaining standards. Where as some 8.74% say standards related to financial services, some10.68% say share based payments, some 8.74% say investment property and some14.56% say standards related to consolidated financial statement should be incorporated to IFRS.

**Question11: Do you think the promotional activities of IFRS adequate?**

Majority of people are of opinion that promotional activities related with IFRS is adequate , 41.75% people think that these promotion activities are moderate and

rest 11.65 % respondents says that IFRS related promotion is insufficient

**Question12: What is / are your preferred mode of learning?**
And in the last question they were asked about the learning mode of IFRS and as an answer of this question 44.66% respondents said that they want interactive learning through workshop, conference or MDP etc, 39.81% said that they will prefer seminars, 10.68% said e-learning and 4.85 % said that class room teaching is the best way to learn about IFRS
Therefore the survey has given us an idea about the state of International Financial Reporting Standards (IFRS) in India. Majority of the respondents are aware about the convergence of IFRS and the Indian accounting standards though not all are clear about the contents of IFRS. Clarity of content is very important if we want to make our accountants and auditors competitive in the global scenario.

## Contribution & Reflections

The clients of our respondents, being firms, companies and banks are also lagging behind in understanding the new accounting platform. Standards related to financial services are the most the most in demand. Though I have conducted the survey randomly, yet most of the respondents want standards related to financial services to be included, closely followed by the inclusion of all remaining accounting standards and standards related to share-based payments.
The major problems faced by the clients during the implementation process were due to lack of knowledge of the accounting staff, insufficient human resources in the area of accounting and increase in time and cost due to the new method of recording financial statements, in that order. Respondents also stated that changes should be made in the Companies Act.
The problem faced by banks is that there is no clarity as to whether the specific guidelines needed for the transitions would be issued by the Reserve Bank of India, ICAI or the Ministry of Corporate Affairs. Other issues faced by banks in adopting IFRS are related to fair value accounting, erosion in value of loans and investments and derivatives and hedge accounting**.** Experience gained from the convergence of banks in the global arena has showed that proper roadmap is necessary for smooth transition.
Poor planning will lead to irrevocable problems for both Indian Authorities and Indian companies. Proper training in the field of financial accounting, individual IFRS and industry-specific IFRS is a must to make Indian accountants and financial professionals eligible enough to bring about a smooth transition.

Proper training in financial accounting, individual IFRS and industry-specific IFRS is a must to make Indian accountants and financial professionals eligible enough to bring about a smooth transition. As the success of international standards' convergence requires both theoretical knowledge and practical knowledge, more workshops should be conducted across the length and breadth of India.

## Reflections

Proper training programs have to formulate and accounting and finance professionals should be trained so as to make the transition smoother. Following are the suggestions to adopt IFRS smoothly RBI and IBA should come out with specific guidelines to effect a smooth transition in the Indian banks.

Since we are adopting IFRS, multiplicity of Indian tax structure (VAT, Excise, and Service Tax) would make it difficult for companies to disclose the amount and its effect. For successful implementation our disclosure requirements need to get

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ISSN : 2321-1709
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changed, that is appropriate changes are required in Companies Act to ensure easy and smooth transformation.

The investors and external stakeholders should also be properly educated about the impending change so that they can understand the financial results of the company recording transactions under the International Financial Reporting Standards.

Banks like Bank of Baroda have hired consultants to train their staff about IFRS. This practice should be taken up by all other banks and firms.

As the IFRS convergence would result in both functional and technical changes, a proper plan for assessing impact of the changes should be developed beforehand.

Business processes mechanisms such as mechanisms related to control and reporting should also be changed in line with the requirements of IFRS.

Courses related to IFRS should be delivered across all educational institutions so that students are made aware of the changing accounting standards.

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# ANALYSIS OF EFFICIENCY OF BANKS IN A DEVELOPING ECONOMY: A CASE OF INDIA

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**Abstract**

The efficiency of banking system is very important for the growth of the overall economy of a country. This is because of the reason that sound banking system serves as an important medium for accomplishing economic growth through the mobilisation of fiscal savings and putting them to the productive use. Given the socioeconomic implications of the banking sector the analyses of relative efficiency of banks has gained popularity among people from banking sector, policy makers, researchers and academicians and other interested parties. This paper is an attempt to investigate the efficiency of Indian commercial banks with the help of data envelopment analysis (DEA), a deterministic non-parametric approach. DEA was firstly applied by Sherman and Gold (1985) for assessing the efficiency of banks. It is a very promising tool for measuring the efficiency of banks (Berger and Humphrey, 1997). DEA is a preferred econometric approach of measuring efficiency because of its advantages over other techniques. The results of this study show that only 5 and 17 banks are efficient on the criteria of technical efficiency and pure technical efficiency respectively. Further ANOVA test indicates that there is no significant difference in the mean technical efficiency scores of various banks belonging to various groups defined for the purpose of this study.

## Introduction

The banking sector plays an important role in the overall development of an economy. Only an efficient banking system can contribute towards the formation of capital and implementation of monetary policy of a country. Banking system serves as an important channel to accomplish higher economic development by mobilising the small savings of the people from household sector and diverting them to the productive uses in industrial sector (Rajan and Zingales, 1998). Efficient banking system of a country also makes a contribution towards the societal welfare by providing financial services at an economical cost to its citizens (Valverde et al., 2003).

Because of the socioeconomic implications of the banking sector the analyses of relative efficiency of banks has gained popularity among people from banking sector, policy makers, researchers and academicians and other interested parties. Other important reasons for continued interest in this area are the financial liberalisation and increasing competition in the sector. Financial liberalisation

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

was first introduced in developed countries and later on it was taken by developing economies. This is the reason why initial studies on the effect of liberalisation or deregulation were carried out in developed countries first.

## Review of Literature in form of tabulation structure

| S. No. | Year | Author & Study | Methodology used | Major Findings | Variables used in the study |
|---|---|---|---|---|---|
| 1 | 2008 | Kumar and Gulati "Technical, Pure Technical and Scale Efficiencies in Indian Public Sector" | Logistic Regression, Data Envelopment Analysis using input orientation | Technical efficiency scores of banks are not significantly affected by market share, profitability and asset quality of banks. | **Output:** Net interest income and non interest income **Input:** Physical capital, Labor, Loanable funds |
| 2 | 2004 | Rammohan and Ray "Comparing Performance of Public and Private Sector Banks: A Revenue Maximisation Efficiency Approach" | The study made a comparison among the efficiency scores of banks in India in 1990's with the help of Data Envelopment Analysis. | With regard to revenue maximising efficiency public sector banks are significantly better than private banks but there was no significant difference between public and foreign banks on this parameter. | **Output:** Loans, Investments and Other incomes **Input:** Physical capital, Labor, Loanable funds |
| 3 | 2004 | Das et al | Das and others analysed the efficiency of Indian banks using Data Envelopment Technique. | The study found that liberalisation had not brought any significant change among various types of Indian banks in terms of technical and cost efficiency but profit and revenue efficiencies were significantly different among different banks. | **Output:** Loan Assets, Other Incomes and Investments **Input:** Physical capital, Labor, Loanable funds and Equity |
| 4 | 2010 | Ray and Das "Distribution of Cost and Profit Efficiency: Evidence from Indian Banking Industry" | Non Parametric DEA and Non Parametric Kernel Density Estimation | The major finding of the study is that privatisation does not lead to more efficiency in Indian banking sector | **Output:** Investments, Earning Advances and Other Income **Input:** Funds, Labor, Capital and Quasi Fixed Inputs |
| 5 | 2003 | Kumbhakar and Sarkar | Non Parametric Data Envelopment Analysis | Private sector banks have improved their performance as a result of deregulation and freedom imparted to expand output whereas public sector banks have not faired well to the deregulation measures adopted by the Indian government. | |
| 6 | 2004 | Shanmugam and Das | Stochastic Frontier Analysis | Technical efficiency of raising interest margin is different across the banks and private and foreign sector banks are more efficient than public sector banks. | **Output:** Net Interest Income, Non Interest Income, Credits and Investment **Input:** Deposits, Borrowings, Labor and Fixed Assets |
| 7 | 2002 | Sathye M. "Effectiveness of Banks in a Developing Economy: The case of India" | Data Envelopment Analysis Technique | Mean efficiency scores of Indian banks are at par with world mean efficiency scores and also that private banks are less efficient in comparison to public sector banks and foreign banks. | |
| 8 | 1998 | Kraft and Tirtiroglu | Stochastic Frontier Analysis was used to study the effectiveness of banks in Croatia in mid 1990's. | The main finding of the study was that newly organised private banks are more efficient in comparison to older state institutions. | |
| 9 | 1997 | Bhattacharya et al | Data Envelopment Analysis was used to measure the effectiveness of Indian commercial banks in late 1980's to early 1990's. | Indian Public sector banks were the best performing banks during the studied period and new private sector banks were yet to emerge. | |
| 10 | 2006 | Sanjeev | Data Envelopment Analysis | There was an increase in the efficiency of Indian banks in the post-reform period and NPAs have a negative effect on the efficiency of banks | |

## Data & Methodology

The data for the study pertains to a sample of 75 banks operating in India, of which twenty seven each are public sector (20 Nationalised Banks and 7 State Bank & its Associates) and foreign banks and twenty one private sector banks. The study includes almost all the banks operating in the country. The data was obtained from the website of Reserve Bank of India.

Various researchers have used data envelopment analysis (DEA) to evaluate bank performance. DEA is a technique to assess the efficiency of production units (in this case, the banks) relative to a set of similar units operating in the same business environment (here, the banking industry). It can identify the benchmark units in comparison to the peers to determine the best practice. A bank is said to be technically efficient if it produces more output using less input resources. In particular, there are several different approaches of measuring output, usually classified into two broad approaches: the production approach and the intermediation approach. The production approach, initiated by the contribution of Benston (1964) and Bell and Murphy (1968), describes banking activities as the production of services to depositors and borrowers, wherein output is measured by the number and type of transactions or accounts (both deposit and loan) and inputs used are only physical units (such as labor and capital), since only physical inputs are needed to provide financial services. Under the intermediation approach, financial institutions are thought of as primarily intermediating funds between savers and investors, wherein the inputs of the bank are essentially financial capital (i.e. the deposits collected and the funds borrowed from financial markets and their interest cost), and outputs are measured by the volume of loans and investments outstanding. It has been generally suggested by a number of writers that a researcher can adopt any measure of output for the financial firm as long as the measure is consistent with the researcher's goals (Sealey and Lindley, 1977).

Along with an efficiency index, the results of the DEA indicate which inputs and output constraints are tight, and which are not. In the context of an efficient bank, a tight input constraint indicates an input which is properly utilized for a given level of outputs, i.e. any reduction in the input would not allow the bank to maintain its present level of outputs; while an input constraint that is not tight indicates an input which is underutilized or improperly utilized (or underproductive). In the context of an inefficient bank, a tight input constraint indicates a "best-utilized" input, though not properly utilized; in fact, in the case of an inefficient bank, all inputs are underutilized. On the other hand, in the context of an efficient bank, a tight output constraint indicates an output which is "just-sufficiently" produced for a given level of inputs; while an output constraint that is not tight indicates an output that is over-produced for the given level of inputs. In the context of an inefficient bank, a tight output constraint indicates an output that is under-produced for the given level of inputs; while an output constraint that is not tight is generally difficult to interpret (may or may not be over-produced for the given level of inputs).

Of particular interest are the properly-utilized and under-utilized inputs of efficient banks, and the under-produced outputs of inefficient banks. The present study adopts an intermediation approach. For this purpose two input variables viz. interest expended, operating expenses and two output variables net interest income and non interest income have been considered.

The present study has been undertaken to compare the efficiency of public, private, and foreign banks operating in India, from the viewpoint of control systems, to identify the critical factors affecting the efficiency of banks, and to analyze the gap between efficient and inefficient banks. The study has employed the data envelopment analysis (DEA) model to analyze the efficiency of banks, and to identify critical factors affecting the efficiency of banks.

## Empirical Results

The efficiency measures computed in the present study are relative in nature. The performance of a bank is not assessed in an absolute manner but is compared with the best in the industry i.e. benchmark with the purpose of improving it.

The sources of inefficiency can be determined by comparing the relative sizes of various efficiency measures. Table - 1 presents the average efficiency estimates of all commercial banks for the year 2008-2009. The table indicates that Public Sector Banks (Nationalised and SBI & Associates) have an average technical efficiency score of 0.73 each which means these banks have the scope of producing 1.37 times (1/0.73) as much output from the same input. Foreign banks have a technical efficiency score of 0.72 followed by Private Sector banks with an average technical efficiency score of 0.67 only.

| Bank Category | Technical Efficiency (TE) | Pure Technical Efficiency (PTE) | Scale Efficiency (SE) |
|---|---|---|---|
| Foreign Banks | 0.72 | 0.89 | 0.80 |
| Nationalised Banks | 0.73 | 0.94 | 0.78 |
| Private Sector Banks | 0.67 | 0.83 | 0.82 |
| SBI & Associates | 0.73 | 0.87 | 0.85 |
| **Total** | **0.71** | **0.88** | **0.81** |

Further, in case of pure technical efficiency nationalised banks are better than all other banks followed by foreign banks and SBI & Associates. Private sector banks have least average PTE score among all categories of banks. It can also be observed from the table-1 that SE is the main source of technical inefficiency among all the banks across all categories.

A bank-wise disaggregated analysis is presented in Table 2. In this, results of input oriented CCR and BCC model (assuming constant return to scale and variable return to scale respectively) have been provided. It represents the technical, pure

technical and scale efficiency scores obtained from DEA model for individual public, private and foreign banks, their peer set, returns to scale and peer count. The results indicate the presence of a marked deviation of the efficiency scores from the best practice frontier. The average technical efficiency score is 0.71, which means that overall level of technical inefficiency in Indian commercial banking industry is to the tune of 29 per cent during 2008-2009. This suggests that of adopting the best practices these 75 banks can on an average reduce their inputs by at least 29 per cent.

| | DMU | TE Score | PTE Score | SE Score | RTS | Peer Count | Peer Set |
|---|---|---|---|---|---|---|---|
| 1 | AB Bank | 1.00 | 1.00 | 1.00 | | 0 | 1 |
| 2 | ABN Amro | 0.46 | 0.83 | 0.56 | drs | 0 | 6 18 17 |
| 3 | Abu-Dhabi | 0.71 | 0.81 | 0.89 | drs | 0 | 10 6 8 |
| 4 | American Express | 0.52 | 1.00 | 0.52 | drs | 0 | 4 |
| 5 | Antwerp Diamond | 0.95 | 0.98 | 0.97 | drs | 0 | 10 6 8 |
| 6 | Bank of America | 0.85 | 1.00 | 0.85 | drs | 24 | 6 |
| 7 | Bank of Bahrain and Kuwait | 0.56 | 0.64 | 0.88 | drs | 0 | 10 6 8 |
| 8 | Bank of Ceylon | 1.00 | 1.00 | 1.00 | | 13 | 8 |
| 9 | Bank of Nova Skotia | 1.00 | 1.00 | 1.00 | | 11 | 9 |
| 10 | Bank of Tokyo Mutsibishi | 1.00 | 1.00 | 1.00 | | 18 | 10 |
| 11 | Barclays Bank | 0.48 | 0.78 | 0.62 | drs | 0 | 18 17 6 |
| 12 | BNP Paribas | 0.65 | 0.82 | 0.80 | drs | 0 | 54 6 10 |
| 13 | Calyon Bank | 0.65 | 0.80 | 0.81 | drs | 0 | 19 10 6 8 |
| 14 | Chinatrust Commercial Bank | 0.67 | 0.71 | 0.95 | drs | 0 | 6 8 |
| 15 | Citi Bank | 0.53 | 1.00 | 0.53 | drs | 1 | 15 |
| 16 | DBS Bank | 0.75 | 0.89 | 0.85 | drs | 0 | 6 19 54 9 |
| 17 | Deutsche Bank | 0.67 | 1.00 | 0.67 | drs | 2 | 17 |
| 18 | HSBC | 0.60 | 1.00 | 0.60 | drs | 14 | 18 |
| 19 | JP Morgan Chase Bank | 1.00 | 1.00 | 1.00 | | 7 | 19 |
| 20 | Krung Thai Bank | 0.63 | 1.00 | 0.63 | Irs | 0 | 8 25 |
| 21 | Mizuho Corporate Bank | 0.68 | 0.80 | 0.85 | drs | 0 | 10 6 8 |
| 22 | Oman Intl Bank | 0.49 | 0.52 | 0.94 | Irs | 0 | 27 8 |
| 23 | Shinhan Bank | 0.88 | 0.97 | 0.91 | drs | 0 | 10 6 8 |
| 24 | Societe Generale | 0.48 | 0.59 | 0.81 | drs | 0 | 10 6 8 |
| 25 | Sonali Bank | 0.71 | 1.29 | 0.56 | Irs | 1 | 25 |
| 26 | Standard Chartered Bank | 0.49 | 1.16 | 0.42 | drs | 0 | 26 |
| 27 | State Bank of Mauritius | 0.89 | 1.00 | 0.89 | Irs | 1 | 27 |
| 28 | Allahabad Bank | 0.73 | 0.94 | 0.78 | drs | 0 | 31 37 54 |
| 29 | Andhra Bank | 0.71 | 0.90 | 0.79 | drs | 0 | 54 31 18 |
| 30 | Bank of Baroda | 0.67 | 0.94 | 0.71 | drs | 0 | 42 31 18 |
| 31 | Bank of India | 0.76 | 1.00 | 0.76 | drs | 19 | 31 |
| 32 | Bank of Maharashtra | 0.67 | 0.85 | 0.79 | drs | 0 | 18 54 31 |
| 33 | Canara Bank | 0.74 | 1.00 | 0.74 | drs | 0 | 33 |
| 34 | Central Bank of India | 0.72 | 0.92 | 0.78 | drs | 0 | 54 31 37 |
| 35 | Corporation Bank | 0.78 | 0.99 | 0.79 | drs | 0 | 54 19 37 31 |
| 36 | Dena Bank | 0.68 | 0.85 | 0.80 | drs | 0 | 54 18 6 |
| 37 | IDBI Bank | 0.94 | 1.00 | 0.94 | drs | 17 | 37 |
| 38 | Indian Bank | 0.74 | 0.99 | 0.75 | drs | 0 | 54 31 18 |
| 39 | Indian Overseas Bank | 0.71 | 0.93 | 0.77 | drs | 0 | 31 54 18 |
| 40 | Oriental Bank of Commerce | 0.78 | 0.98 | 0.80 | drs | 0 | 54 31 37 |

Table 2 : (Efficiency Scores of Banks)

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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 41 | Punjab & Sind Bank | 0.70 | 0.86 | 0.81 | drs | 0 | 54 18 6 |
| 42 | Punjab National Bank | 0.71 | 1.00 | 0.71 | drs | 1 | 42 |
| 43 | Syndicate Bank | 0.74 | 0.96 | 0.77 | drs | 0 | 31 37 54 |
| 44 | UCO Bank | 0.71 | 0.90 | 0.79 | drs | 0 | 54 31 37 |
| 45 | Union Bank of India | 0.75 | 0.99 | 0.76 | drs | 0 | 54 31 37 |
| 46 | United Bank of India | 0.66 | 0.83 | 0.79 | drs | 0 | 54 31 18 |
| 47 | Vijaya Bank | 0.72 | 0.89 | 0.81 | drs | 0 | 54 31 37 |
| 48 | Axis Bank | 0.63 | 0.90 | 0.69 | drs | 0 | 15 31 18 19 |
| 49 | Bank of Rajasthan | 0.66 | 0.78 | 0.84 | drs | 0 | 54 6 10 |
| 50 | Catholic Syrian Bank | 0.52 | 0.62 | 0.84 | drs | 0 | 54 6 10 |
| 51 | City Union Bank | 0.77 | 0.87 | 0.89 | drs | 0 | 9 54 10 |
| 52 | Development Credit Bank | 0.49 | 0.60 | 0.82 | drs | 0 | 54 6 10 |
| 53 | Dhanlakshmi Bank | 0.59 | 0.66 | 0.90 | drs | 0 | 54 6 10 |
| 54 | Federal Bank | 0.83 | 1.00 | 0.83 | drs | 37 | 54 |
| 55 | HDFC Bank | 0.56 | 1.00 | 0.56 | drs | 0 | 55 |
| 56 | ICICI Bank | 0.66 | 1.00 | 0.66 | drs | 0 | 56 |
| 57 | Indusind Bank | 0.61 | 0.74 | 0.83 | drs | 0 | 6 19 54 9 |
| 58 | ING Vysya Bank | 0.63 | 0.84 | 0.75 | drs | 0 | 31 18 54 |
| 59 | J&K Bank | 0.83 | 1.00 | 0.83 | drs | 0 | 54 37 9 |
| 60 | Karnataka Bank | 0.73 | 0.86 | 0.84 | drs | 0 | 19 37 54 9 |
| 61 | Karur Vysya Bank | 0.75 | 0.87 | 0.86 | drs | 0 | 37 54 9 |
| 62 | Kotak Mahindra Bank | 0.52 | 0.83 | 0.63 | drs | 0 | 54 18 6 |
| 63 | Lakshmi Vilas Bank | 0.63 | 0.72 | 0.88 | drs | 0 | 54 6 10 |
| 64 | Nainital Bank | 0.82 | 0.87 | 0.94 | drs | 0 | 10 6 8 |
| 65 | Ratnakar Bank | 0.72 | 0.79 | 0.90 | drs | 0 | 10 6 8 |
| 66 | SBI Comm. & Intl Bank | 0.76 | 0.77 | 0.99 | Irs | 0 | 9 10 8 |
| 67 | South Indian Bank | 0.73 | 0.87 | 0.84 | Drs | 0 | 54 6 10 |
| 68 | Yes Bank | 0.68 | 0.81 | 0.83 | Drs | 0 | 9 19 37 54 |
| 69 | SBBJ | 0.70 | 0.86 | 0.81 | Drs | 0 | 31 18 54 |
| 70 | State Bank of Hyderabad | 0.77 | 0.96 | 0.81 | Drs | 0 | 31 37 54 |
| 71 | State Bank of India | 0.65 | 0.65 | 1.00 | | 0 | 71 |
| 72 | State Bank of Indore | 0.76 | 0.92 | 0.83 | Drs | 0 | 54 37 9 |
| 73 | State Bank of Mysore | 0.69 | 0.83 | 0.83 | Drs | 0 | 54 9 37 |
| 74 | State Bank of Patiala | 0.82 | 0.98 | 0.83 | Drs | 0 | 54 37 9 |
| 75 | State Bank of Travancore | 0.73 | 0.90 | 0.81 | Drs | 0 | 31 54 37 |
| | Mean Score | 0.71 | 0.89 | 0.80 | | | |

However, the potential reduction in inputs from adopting best practices varies from bank to bank. Alternatively these banks have the scope of producing 1.41 times i.e. (1/0.71) as much outputs from the same inputs. Of the 75 commercial banks, 5 banks have indentified as "relatively efficient" with technical efficiency score equal to one. The remaining 70 banks have been found to be "relatively inefficient" with efficiency score less than one. The inefficient banks can improve their efficiency by decreasing resource inputs and increasing outputs.

| | DMU | Int. Inc. (O) | | Oth. Inc.(O) | | Int. Exp. (I) | | Op. Exp. (I) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Actual | Target | Actual | Target | Actual | Target | Actual | Target |
| 1 | AB Bank | 5.000 | 5.000 | 8.000 | 8.000 | 1.000 | 1.000 | 4.000 | 4.000 |
| 2 | ABN Amro | 3120.000 | 3120.000 | 1225.000 | 1444.930 | 1437.000 | 1194.088 | 1497.000 | 1243.946 |
| 3 | Abu-Dhabi | 48.000 | 48.000 | 5.000 | 29.746 | 20.000 | 16.135 | 13.000 | 10.488 |
| 4 | American Express | 77.000 | 77.000 | 335.000 | 335.000 | 81.000 | 81.000 | 375.000 | 375.000 |
| 5 | Antwerp Diamond | 46.000 | 46.000 | 13.000 | 22.459 | 20.000 | 19.618 | 8.000 | 7.847 |
| 6 | Bank of America | 607.000 | 607.000 | 393.000 | 393.000 | 152.000 | 152.000 | 175.000 | 175.000 |
| 7 | Bank of Bahrain and Kuwait | 49.000 | 49.000 | 15.000 | 30.843 | 25.000 | 16.081 | 17.000 | 10.935 |
| 8 | Bank of Ceylon | 14.000 | 14.000 | 15.000 | 15.000 | 3.000 | 3.000 | 3.000 | 3.000 |
| 9 | Bank of Nova Skotia | 545.000 | 545.000 | 171.000 | 171.000 | 371.000 | 371.000 | 59.000 | 59.000 |
| 10 | Bank of Tokyo Mutsibishi | 315.000 | 315.000 | 63.000 | 63.000 | 174.000 | 174.000 | 41.000 | 41.000 |
| 11 | Barclays Bank | 2037.000 | 2037.000 | 589.000 | 972.840 | 979.000 | 763.460 | 892.000 | 695.614 |
| 12 | BNP Paribas | 636.000 | 636.000 | 243.000 | 321.167 | 272.000 | 222.892 | 193.000 | 158.155 |
| 13 | Calyon Bank | 347.000 | 347.000 | 255.000 | 255.000 | 174.000 | 140.035 | 100.000 | 80.480 |
| 14 | Chinatrust Commercial Bank | 19.000 | 19.000 | 2.000 | 18.187 | 6.000 | 4.256 | 9.000 | 4.450 |
| 15 | Citi Bank | 6840.000 | 6840.000 | 3582.000 | 3582.000 | 3429.000 | 3429.000 | 2587.000 | 2587.000 |
| 16 | DBS Bank | 809.000 | 809.000 | 302.000 | 302.000 | 494.000 | 437.191 | 165.000 | 146.025 |
| 17 | Deutsche Bank | 1881.000 | 1881.000 | 1020.000 | 1020.000 | 588.000 | 588.000 | 1155.000 | 1155.000 |
| 18 | HSBC | 6327.000 | 6327.000 | 2699.000 | 2699.000 | 2611.000 | 2611.000 | 2195.000 | 2195.000 |
| 19 | JP Morgan Chase Bank | 516.000 | 516.000 | 718.000 | 718.000 | 231.000 | 231.000 | 138.000 | 138.000 |
| 20 | Krung Thai Bank | 10.000 | 10.000 | 1.000 | 11.923 | 5.000 | 2.385 | 3.000 | 3.000 |
| 21 | Mizuho Corporate Bank | 129.000 | 129.000 | 38.000 | 66.349 | 58.000 | 46.450 | 36.000 | 28.831 |
| 22 | Oman Intl Bank | 15.000 | 15.000 | 3.000 | 14.613 | 9.000 | 3.903 | 6.000 | 3.097 |
| 23 | Shinhan Bank | 64.000 | 64.000 | 8.000 | 32.452 | 26.000 | 25.122 | 13.000 | 12.561 |
| 24 | Societe Generale | 153.000 | 153.000 | 69.000 | 90.083 | 80.000 | 46.889 | 66.000 | 38.683 |
| 25 | Sonali Bank | 1.000 | 1.000 | 5.000 | 5.000 | 1.000 | 1.000 | 3.000 | 3.000 |
| 26 | Standard Chartered Bank | 5649.000 | 5649.000 | 3097.000 | 3097.000 | 2490.000 | 2490.000 | 2500.000 | 2500.000 |
| 27 | State Bank of Mauritius | 45.000 | 45.000 | 3.000 | 3.000 | 31.000 | 31.000 | 6.000 | 6.000 |
| 28 | Allahabad Bank | 7365.000 | 7365.000 | 1142.000 | 1266.512 | 5206.000 | 4884.062 | 1399.000 | 1312.486 |
| 29 | Andhra Bank | 5375.000 | 5375.000 | 765.000 | 950.999 | 3748.000 | 3367.978 | 1104.000 | 992.062 |
| 30 | Bank of Baroda | 15092.000 | 15092.000 | 2758.000 | 2901.491 | 9968.000 | 9366.865 | 3576.000 | 3360.344 |
| 31 | Bank of India | 16347.000 | 16347.000 | 3052.000 | 3052.000 | 10848.000 | 10848.000 | 3094.000 | 3094.000 |
| 32 | Bank of Maharashtra | 4292.000 | 4292.000 | 500.000 | 796.777 | 3035.000 | 2581.921 | 963.000 | 819.239 |
| 33 | Canara Bank | 17119.000 | 17119.000 | 2311.000 | 2311.000 | 12401.000 | 12401.000 | 3065.000 | 3065.000 |
| 34 | Central Bank of India | 10455.000 | 10455.000 | 1070.000 | 1697.554 | 8227.000 | 7590.184 | 1862.000 | 1717.871 |
| 35 | Corporation Bank | 6067.000 | 6067.000 | 1107.000 | 1107.000 | 4376.000 | 4332.970 | 1002.000 | 992.147 |
| 36 | Dena Bank | 3447.000 | 3447.000 | 430.000 | 625.348 | 2383.000 | 2017.121 | 768.000 | 650.083 |

Table 3 : Actual and Targets

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| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 37 | IDBI Bank | 11632.000 | 11632.000 | 1390.000 | 1390.000 | 10306.000 | 10306.000 | 1338.000 | 1338.000 |
| 38 | Indian Bank | 6830.000 | 6830.000 | 1035.000 | 1429.469 | 4222.000 | 4180.438 | 1415.000 | 1401.070 |
| 39 | Indian Overseas Bank | 9641.000 | 9641.000 | 1596.000 | 1757.469 | 6772.000 | 6285.624 | 1942.000 | 1802.522 |
| 40 | Oriental Bank of Commerce | 8856.000 | 8856.000 | 1071.000 | 1334.056 | 6860.000 | 6691.495 | 1383.000 | 1349.029 |
| 41 | Punjab & Sind Bank | 3247.000 | 3247.000 | 408.000 | 567.888 | 2235.000 | 1914.786 | 692.000 | 592.855 |
| 42 | Punjab National Bank | 19326.000 | 19326.000 | 2920.000 | 2920.000 | 12295.000 | 12295.000 | 4206.000 | 4206.000 |
| 43 | Syndicate Bank | 9580.000 | 9580.000 | 860.000 | 1612.802 | 6978.000 | 6690.628 | 1716.000 | 1645.331 |
| 44 | UCO Bank | 8121.000 | 8121.000 | 1020.000 | 1290.025 | 6477.000 | 5838.850 | 1463.000 | 1318.857 |
| 45 | Union Bank of India | 11889.000 | 11889.000 | 1483.000 | 2143.398 | 8076.000 | 7968.020 | 2214.000 | 2184.398 |
| 46 | United Bank of India | 4312.000 | 4312.000 | 491.000 | 779.436 | 3150.000 | 2614.566 | 975.000 | 809.271 |
| 47 | Vijaya Bank | 5238.000 | 5238.000 | 699.000 | 786.967 | 4113.000 | 3674.398 | 925.000 | 826.360 |
| 48 | Axis Bank | 10835.000 | 10835.000 | 2897.000 | 2897.000 | 7149.000 | 6460.611 | 2858.000 | 2582.799 |
| 49 | Bank of Rajasthan | 1384.000 | 1384.000 | 124.000 | 284.239 | 998.000 | 782.875 | 315.000 | 247.100 |
| 50 | Catholic Syrian Bank | 557.000 | 557.000 | 100.000 | 211.874 | 391.000 | 242.824 | 187.000 | 116.133 |
| 51 | City Union Bank | 804.000 | 804.000 | 124.000 | 156.532 | 562.000 | 486.960 | 140.000 | 121.307 |
| 52 | Development Credit Bank | 645.000 | 645.000 | 120.000 | 267.862 | 448.000 | 266.557 | 242.000 | 143.988 |
| 53 | Dhanlakshmi Bank | 408.000 | 408.000 | 79.000 | 136.276 | 287.000 | 189.227 | 113.000 | 74.504 |
| 54 | Federal Bank | 3315.000 | 3315.000 | 516.000 | 516.000 | 2000.000 | 2000.000 | 571.000 | 571.000 |
| 55 | HDFC Bank | 16332.000 | 16332.000 | 3291.000 | 3291.000 | 8911.000 | 8911.000 | 5533.000 | 5533.000 |
| 56 | ICICI Bank | 31093.000 | 31093.000 | 7604.000 | 7604.000 | 22726.000 | 22726.000 | 7045.000 | 7045.000 |
| 57 | IndusInd Bank | 2309.000 | 2309.000 | 456.000 | 456.000 | 1850.000 | 1367.199 | 547.000 | 404.247 |
| 58 | ING Vysya Bank | 4004.000 | 4004.000 | 848.000 | 891.705 | 2682.000 | 2250.813 | 1027.000 | 861.888 |
| 59 | J&K Bank | 2988.000 | 2988.000 | 245.000 | 466.840 | 1988.000 | 1985.593 | 471.000 | 470.430 |
| 60 | Karnataka Bank | 1917.000 | 1917.000 | 353.000 | 353.000 | 1444.000 | 1244.476 | 347.000 | 299.053 |
| 61 | Karur Vysya Bank | 1446.000 | 1446.000 | 265.000 | 283.099 | 1036.000 | 903.377 | 258.000 | 224.972 |
| 62 | Kotak Mahindra Bank | 3065.000 | 3065.000 | 358.000 | 1287.338 | 1547.000 | 1276.872 | 1196.000 | 987.162 |
| 63 | Lakshmi Vilas Bank | 658.000 | 658.000 | 107.000 | 142.538 | 504.000 | 363.391 | 152.000 | 109.594 |
| 64 | Nainital Bank | 209.000 | 209.000 | 10.000 | 64.902 | 116.000 | 101.315 | 39.000 | 34.063 |
| 65 | Ratnakar Bank | 138.000 | 138.000 | 16.000 | 56.860 | 74.000 | 58.804 | 33.000 | 26.224 |
| 66 | SBI Comm. & Intl Bank | 54.000 | 54.000 | 3.000 | 23.568 | 36.000 | 27.760 | 10.000 | 7.711 |
| 67 | South Indian Bank | 1687.000 | 1687.000 | 164.000 | 272.155 | 1164.000 | 1007.705 | 328.000 | 283.958 |
| 68 | Yes Bank | 2003.000 | 2003.000 | 435.000 | 435.000 | 1492.000 | 1212.632 | 419.000 | 340.545 |
| 69 | SBBJ | 3810.000 | 3810.000 | 577.000 | 625.833 | 2707.000 | 2323.948 | 787.000 | 675.636 |
| 70 | State Bank of Hyderabad | 5709.000 | 5709.000 | 769.000 | 858.154 | 4243.000 | 4067.293 | 933.000 | 894.363 |
| 71 | State Bank of India | 63788.000 | 63788.000 | 12691.000 | 12691.000 | 42915.000 | 42915.000 | 15649.000 | 15649.000 |
| 72 | State Bank of Indore | 2713.000 | 2713.000 | 350.000 | 433.038 | 1979.000 | 1814.390 | 460.000 | 421.738 |
| 73 | State Bank of Mysore | 3247.000 | 3247.000 | 480.000 | 505.889 | 2409.000 | 1994.646 | 665.000 | 550.618 |
| 74 | State Bank of Patiala | 5804.000 | 5804.000 | 632.000 | 772.901 | 4676.000 | 4583.969 | 794.000 | 778.373 |
| 75 | State Bank of Travancore | 4123.000 | 668.244 | 573.000 | 2566.415 | 2841.000 | 2566.415 | 799.000 | 721.776 |

| Category | No. of efficient units | | No. of inefficient units | | Total Units | |
|---|---|---|---|---|---|---|
| | TE | PTE | TE | PTE | TE | PTE |
| Foreign Banks | 5 | 14 | 22 | 13 | 27 | 27 |
| Nationalised Banks | 0 | 04 | 20 | 16 | 20 | 20 |
| Private Banks | 0 | 04 | 21 | 17 | 21 | 21 |
| SBI & Associates | 0 | 00 | 07 | 07 | 07 | 07 |

Table 4 : Efficient and Non Efficient Banks Group-Wise

The results for the DEA run with variable returns to scale (PTE) for 75 banks shows that average size of efficiency scores was higher in the variable returns 0.88 compared with 0.71 for constant returns to scale. Further, there are 22 banks achieving an efficiency score of 1 in under VRS assumption in comparison to only 5 under CRS assumption. However, of the 17 additional efficient units 7 units do not appear in any peer count. This indicates that these banks are found apparently efficient by default because there were no other banks of comparable size. These banks are American Express, Krug Thai, Standard Chartered, Canara Bank, HDFC, ICICI and J&K Bank

The average scale efficiency score is 0.81. The banks that are not of optimal size i.e. technical efficiency score less than 1 are 70 in numbers. Out of which only 5 banks have increasing returns to scale. It shows that except these 5 banks, remaining 65 inefficient banks are over resourced. They should try to reduce their inputs.

Of the 75 banks studied, Federal Bank has maximum peer count of 37 banks followed by Bank of America, Bank of India, Bank of Tokyo & Mitsubishi, IDBI and HSBC etc. These banks are well managed and have healthy input-output ratio. The banks which performed very poorly were (on the basis of Technical Efficiency Score) are ABN Amro, Societe Generale, Barclays Bank, Standard Chartered, Development Credit Bank etc. These banks have diminishing returns to scale which shows that these banks are over resourced.

## Target Setting

An inefficient bank may become overall efficient by adjusting its operation to the associated target point determined by the efficient banks that define its reference frontier. The DEA provides diagnostic information about the reasons of inefficiency for all the banks with respect to the variables taken into consideration. The inefficiency scores and the optimal slack values provide the target points on the efficiency frontier that the inefficient banks can reach by adjusting their input and output levels.

Table 3 presents the target values of inputs and outputs for inefficient banks along with the actual values of inputs and outputs. The relative reduction in inputs shows that Oman International Bank needs to reduce its input by nearly 56.63% followed by Krung Thai bank 52.3%, DCB 40.5%, Catholic Syrian Bank 37.9%

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ISSN : 2321-1709
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and Bank of Bahrain and Kuwait 35.68% etc.

## Group-wise difference in the Technical Efficiency of Banks

Among the 4 groups of banks i.e. Foreign, Public, Private and SBI & its Associates the difference in the mean technical efficiency score has been tested by applying ANOVA. The results of the test shows that there is no significant difference between the mean efficiency score of various banks belonging to different groups at 95% confidence level (significant value 0.496 being greater than 0.05).

ANOVA

| **TEScore** | | | | | |
|---|---|---|---|---|---|
| | Sum of Squares | Df | Mean Square | F | Sig. |
| Between Groups | .042 | 3 | .014 | .803 | .496 |
| Within Groups | 1.246 | 71 | .018 | | |
| Total | 1.288 | 74 | | | |

## Conclusions

The primary purpose of this paper is to investigate recent efficiency record of Indian commercial banking industry. This has been executed by implementing Data Envelopment Analysis (DEA) on a cross section of 75 banks taken in the year 2008-2009. The overall level of technical efficiency in these banks has been found to be 88 percent. This implies that the sample banks have the scope of producing 1.136 times as much output from the same inputs. The inefficiency that exists in these banks was more a result of both technical and pure technical efficiency. On the basis of technical efficiency only 5 banks have been found to be efficient and all of them belong to foreign bank category. With regard to pure technical efficiency score 17 banks are efficient which indicates that scale inefficiency is the main reason of inefficiency among banks in India. Further ANOVA statistical test does not indicate any significant difference among the 4 groups of banks chosen for the purpose.

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# Financial Inclusion and Economic Growth in Development of Country

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**Abstract**

Financial Inclusion plays an important role in sustaining equitable growth. In developing countries weaker section of the society normally ignored by the financial institution, in the race of making profit. For banks cost of dealing with poor is high because they have to maintain high number of account with low volume of financial transactions. Financial inclusion means delivery of banking services at an affordable cost to the vast section of disadvantageous and low income groups. Importance of financial inclusion lies in the fact that economic opportunities are closely related with financial access. So in this paper is an attempt to find out the impact of financial inclusion on the economic development of the country.

**Keywords:** Financial inclusion, economic growth, no frill account.

## Introduction

Financial inclusion is integral to the inclusive growth process and sustainable development of the country. The banking sector in the developed countries is so much developed that they serve most of the population but in developing countries situation is quite different, weaker section of the society normally ignored by the financial institutions, in the race of making profits. For banks cost of dealing with poor is high because they have to maintain high number of accounts with low volume of financial transactions.

Therefore, low income group have little access to financial services. They drive finance from semi-formal or traditional sources. As a result, many people depend upon their own resources or take credit from informal sources at high rate of interest.

To cover the largest segment of population or low income group people, government of India launched a new policy known as financial inclusion. Financial inclusion means delivering of banking services at an affordable cost to the vast section of disadvantageous and low income groups. Financial inclusion is important because it is necessary condition for sustaining equitable growth. Efforts of financial inclusion is not new, both the government and reserve bank of India have been pursuing this goal over the past several decades through building the rural cooperative structure in 1950's, the social contract with banks in the 1960's and the expansion bank branches network in the 1970's and 1980's. (Subbaro, D. 2006).

But the process of financial inclusion in the past was very slow government did not launch much schemes to cover the low income group peoples. Financial inclusion take the speed in 2005, when government of India launched the various schemes to cover the vast population like no-frill account, easier credit facility and simpler KYC norms etc.

**Definition of financial inclusion**

Rangarajan's committee on financial inclusion defines it as:

“Financial inclusion may be defined as the process of ensuring the access of financial services and timely and adequate credit was needed by vulnerable groups such as weaker sections and low income groups at affordable cost”.

Financial inclusion has been defined by United Nation as under:

“A financial sector that provides access for credit for all bankable people and firms and saving and payment services to everyone. Inclusive function does not require that everyone is eligible to use each of services but they should be able to choose them if desired.

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure (Sharma, et al., 2013).

**Importance of Financial Inclusion**

Financial inclusion is necessary for the economic growth of the country. In the past, Indian banking system has demonstrated resilience in the face of the recent global financial crisis, nevertheless these banks should adopt strong and urgent measure to reach the unbanked segment of society and unlock their savings and investment potentials. To accomplish this task, nearly 80% of the PSUs (public sector undertakings) have already adopted the CBS (core banking solution), while 20% PSUs are yet to adopt the core banking solution.

Importance of financial inclusion lies in the fact that economic opportunities are closely related with financial access. Such access is beneficial for the poor because it provides them opportunities to build savings make investment and avail credit and helps them to meet emergency like illness, loss of employment, etc.

Financial inclusion will also make possible for the government to make payment of MNREGA (Mahatma Gandhi national rural employment guarantee act) wages and other subsidies in the bank account of beneficiary through the electronic benefit transfer method. This will minimize the transaction cost and also stop the leakages of fund by intermediary.

**Objectives of Study**

To know the importance and extent of financial inclusion.

To ascertain the impact of financial inclusion on economic development of country.

**Research Methodology**

Research methodology is partly descriptive, partly exploratory and partly casual. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, E-Journals, RBI Report, etc.

**Financial Inclusion and Economic Growth**

The growth trend of the Indian economy over the last few years indicates the higher growth, as shown by the table1. The growth rate of GDP has been increased from 10.7% in 1999-2000 to 17.5% in 2010-11. The average GDP growth prior to financial inclusion is 10.1 from 1999-2005 and average growth of GDP after inclusion is 15.78, when 2005 is taken as financial inclusion year. Data shows that growth in GDP has increased after financial inclusion.

On the saving side, gross domestic savings as a percentage of GDP also showing a increasing trend. The gross domestic saving rate has improved from 25.67% in 1999-2000 to 32.34% in 2010-11. Household also increase but as a percentage of GDS it shows a decreasing trend, it means that proportion of household saving in the gross domestic savings is decrease. The main reason for this may be the inflation. Due to inflation people need to spend on consumption to maintain their

| year | Annual growth in GDP at factor cost (%) | Annual growth in per-capita income (%) | GDS (in billions) | GDS as %of GDP | Household savings (in billions) | Household savings as % of GDS |
|---|---|---|---|---|---|---|
| 1999-2000 | 10.7 | 8.4 | 5,168.68 | 25.67 | 4,388.51 | 84.90 |
| 2000-01 | 7.8 | 5.2 | 5,155.45 | 23.77 | 4,637.50 | 89.95 |
| 2001-02 | 8.8 | 6.7 | 5,853.75 | 24.93 | 5,452.88 | 93.15 |
| 2002-03 | 7.9 | 6.5 | 6,562.29 | 25.93 | 5,641.61 | 85.97 |
| 2003-04 | 12.1 | 10.6 | 8,237.75 | 29.02 | 6,575.87 | 79.83 |
| 2004-05 | 13.3 | 11.1 | 10,507.03 | 32.40 | 7,636.85 | 72.68 |
| 2005-06 | 14.1 | 12.4 | 12,351.51 | 33.44 | 8,689.88 | 70.75 |
| 2006-07 | 16.6 | 15.0 | 14,859.09 | 34.60 | 9,943.96 | 66.92 |
| 2007-08 | 15.9 | 14.8 | 18,363.32 | 36.82 | 11,183.47 | 60.90 |
| 2008-09 | 15.7 | 13.8 | 18,026.20 | 32.01 | 13,308.73 | 73.83 |
| 2009-10 | 14.9 | 13.1 | 21,829.70 | 33.80 | 16,390.38 | 75.08 |
| 2010-11 | 17.5 | 15.6 | 24,819.31 | 32.34 | 17,493.11 | 70.48 |

Table 2 : selected micro-economic indicators

Source: Reserve bank of India report, GDP= gross domestic product, GDS= gross domestic saving

| year | Deposits | Credit |
|---|---|---|
| 2005-06 | 57.1 | 40.8 |
| 2006-07 | 60.8 | 45.0 |
| 2007-08 | 64.1 | 47.4 |
| 2008-09 | 68.1 | 49.3 |
| 2009-10 | 69.6 | 50.2 |
| 2010-11 | 67.9 | 51.4 |

Table 3 : SCBs aggregate deposits and credit as a percentage of GDP

Source: Reserve bank of India report

The above table shows that aggregate deposit and credit has been increased as a percentage of GDP. Both these are also the economic indicators of country, if the deposits in the banks shows an increasing trend it means bank have more money to invest and give more loans for productive purpose.

IJMR
ISSN : 2321-1709
*(Oct.-Dec., 2013)*
*Vol. I No. 2*

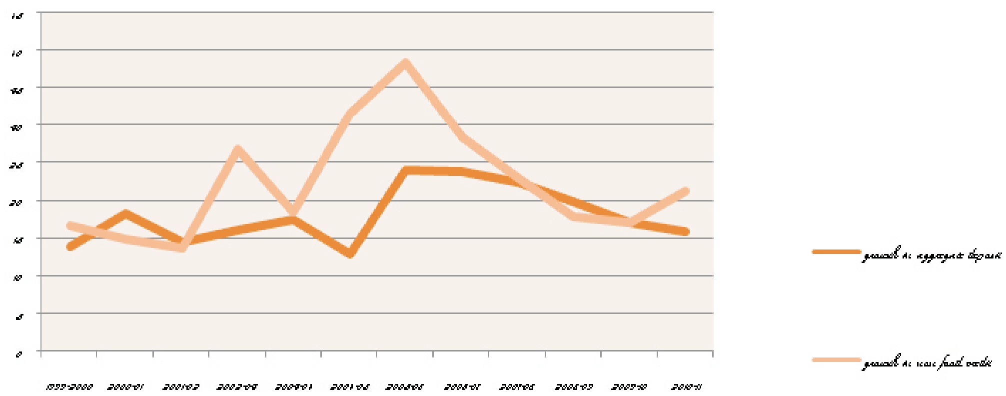

Chart 1 : growth in aggregate deposits and Non-food credit (in percentage)

High industrial growth is reflected in the acceleration in bank credit. Average growth in non-food credit between 1999 and 2011 has been 22.34% which shows the evidence of growth in industrialization. During 2002-03 to 2005-06 there is highest growth in non-food credit which shows highest growth in corporate sector during this period. The high industrialized and credit growth has also been supported by high trade growth in both merchandise goods and services.

The high credit growth has not been matched by deposit growth. The growth in deposit since 1999-2000 has been lower than that required to support overall credit expansion (chart 1). Banks have been financing much of the incremental credit expansion by withdrawing their surplus investment in government securities. The trend therefore indicates that while bank may have been proactive in credit deployment, their focus on deposit mobilization may have been less than adequate. If deposit growth does not match credit growth, excess demand would inevitably lead to increase in real interest rates leading to further possibility of financial inclusion.

It is clear from the performance of the economy that the growth in financial sector has accompanied the acceleration of economic growth. We also observe that growth in credit has gone towards financing consumption and housing which suggest widening of financial system.

**Barriers in financial inclusion**

2.5 billion People remain financially excluded. In most developing countries, more than two third of the adult population has no bank access to formal financial service, and in sub Saharan Africa, financial exclusion is as high as 76%. Exclusion is typically highest amongst women, youth and the very poorest segment of society (Allan.A, et al. 2013).

**Financial literacy**

From the demand side main barrier in financial inclusion is lack of awareness about financial products and services because most of low income group people are illiterate. Many financial product and services are unsuitable for poor less effort has been made to design the product which are suitable for them.

**Transaction cost**

Other barrier is that the income of poor people is low and unpredictable which make difficult for them to bank with formal institutions. It also increase the transaction cost for banks because they have to maintain a high number of accounts with a low volume of financial transaction.

**Absence of reach and coverage**

Most of bank branches are located far from the villages. There are 6lakh villages in India while, rural branches of scheduled commercial banks including RRBs only 33,495. Due to the distance of community from the bank, the expenses of travelling ads to the transaction cost.

**Regulation policies**

Regulation policies are barrier to broader financial inclusion. For example banks often require identity proof of individuals to register themselves with bank; so that regulation related to money laundering can be meeting. But poor people particularly women, lack birth certificate and formal identity card.

**What has been done so far?**

Government of Indian and reserve bank of India take various steps to promote the financial inclusion. Of which some are as follow:

- Availability of minimum four banking products through ICT model has been ensured. Which are:

(1) A basic No-Frill banking account with overdraft facility
No-frill account is one for which no minimum balance is insisted upon for which there is no service charged for not maintaining the minimum balance.

(2) A remittance product for electronic benefit transfer.

(3) A pure saving product ideally a recurring or a variable recurring deposits.

(4) Entrepreneurial credit such as general credit card, kisan credit card.

- Mandatory opening of 25% of new branches in unbanked rural centers.
- KYC (know your customer) documentation requirement significantly simplified for small accounts.
- Guidelines for convergence of central sponsored schemes or other benefits through the electronic benefit transfer.
- All bank branches must be on core banking solution. All RRBs to be on CBS by 2011.
- Reserve bank furthering the financial literacy by collaborating with state government across the country to include financial literacy curriculum in the school syllabus. A pilot project was launched in Karnataka.

Table 1 : Progress of SCBs in financial inclusion plan (excluding RRBs)

| particulars | March 2010 | March 2011 | March 2012 | Change from March 2010 to march 2012 |
|---|---|---|---|---|
| Total number of banking outlets in village | 54,258 | 1,00,183 | 147,534 | 93,276 |
| Of which | | | | |
| (a) Through branches | 21,475 | 22,662 | 24,701 | 3,226 |
| (b) Through BCs | 32,684 | 77,138 | 120,355 | 87,671 |
| (c) Through other modes | 99 | 383 | 2,478 | 2,379 |
| No frill account number (in millions) | 50.3 | 75.4 | 105.5 | 55.2 |
| Kisan credit cards number (in millions) | 15.9 | 18.2 | 20.3 | 4.4 |

Above statistic shows that total number of banking outlets in rural area has increased. The number of bank branches in the rural area has increased from 21,475 in March 2010 to 24,701 in March 2012. The main mode to entering in the rural area is through business correspondence (BCs). Account opened by business correspondence has increased from 32,684 in March 2010 to 120,355 in March 2012. The number of No-Frill bank account also increased from 50.3 Million to 105.5 Millions. It shows that there is large scope to cover low income group.

**Conclusion**

Financial inclusion is integral to the inclusive growth. Financial inclusion make possible for the government to make payment of various schemes and subsidies in the bank account of beneficiary this will minimize the transaction cost. Total number of banking outlets in the rural area has increased. The main mode of entering in the rural area is through business correspondence and above analysis shows that the growth rate of GDP, aggregate deposit and credit has been increased after the financial inclusion.

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# BANKING SERVICES IN THE ERA OF GLOBALISATION

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**Abstract**
The service sector has been a major contributor to the high growth rates experienced by the Indian economy in the recent years. The rapid growth of India's service sector in the post reform era has played a critical role in the country's emergence as one of the fastest –growing economies in the world in the recent years. The service sector has also facilitated India's integration with the world economy through trade and investment. The current dynamism exhibited by India's services sector is largely a reflection of the liberalization and reform process carried out in this sector and in the wider economy since the 1990's However, this process has been fraught with debate and controversy over the desired pace, extent and implication of these reforms. These issue and concerns have varied across different kinds of services. Some have been liberalized rapidly and extensively for both domestic and foreign participants. The Banking system reforms and liberalization began in the 1992-1997 period with a caution and progressive approach. The subsequent reforms have been in the line with the three broad objectives of relaxing external constrains affecting the banking sector, strengthening the banking system and putting in the place an institutional framework to overall its functioning.

**Introduction**

The service sector has been a major contributor to the high growth rates experienced by the Indian economy in the recent years. The rapid growth of India's service sector in the post reform era has played a critical role in the country's emergence as one of the fastest –growing economies in the world in the recent years. The service sector has also facilitated India's integration with the world economy through trade and investment.

The current dynamism exhibited by India's services sector is largely a reflection of the liberalization and reform process carried out in this sector and in the wider economy since the 1990's However, this process has been fraught with debate and controversy over the desired pace, extent and implication of these reforms. These issue and concerns have varied across different kinds of services. Some have been liberalized rapidly and extensively for both domestic and foreign participants.

The Banking system reforms and liberalization began in the 1992-1997 period with a caution and progressive approach. The subsequent reforms have been in the line with the three broad objectives of relaxing external constrains affecting the banking sector, strengthening the banking system and

putting in the place an institutional framework to overall its functioning.

**Liberalization and globalization period**

The key banking sector liberalization measures include the phasing out of the following factors

Directed credit

Deregulation of interest rates

Introduction of BASEL/Bank for the international settlements norms for capital adequacy

Tightening of prudential norms

Allowing of participation by domestic private banks

Reducing of restrictions on entry by foreign bank

Sale of bank equity to the public

Phasing out of privileged access to funds by DFI's

Increasing competitions in lending DFI's and banks.

These measures have been implemented gradually to increase the efficiency and profitability of the public sector bank and to improve the safety and soundness of the banking system. Bank branching policy and entry norms for private sector and foreign banks have been liberalized steadily. Since 1993 the RBI –the Central Bank .which is the regulator of the banking system---has allowed entry of the private banks to increase competition. In 1996 guidelines were issued the setting up new private local area banks to increase competition in the rural banking. Measures have been also introduced to improve the operating norms and practices of the banking system. Prudential norms have been implemented for capital adequacy, income recognition, asset classification, provisioning accounting and valuation practices, exposure limits, and transparency and disclosure practices. The objectives of these measures are to move the banking system towards international best practices and standards.

**Research Methodology**

In this study, secondary data are used to make the comparison between public sector, private sector and foreign banks. The secondary data are taken from the annual reports of the concerned banks.). Secondary information are also collected from the Website from PNB and ICICI bank, IBA and RBI bulletins, SBI monthly review, PNB VISION-Team ZTC Delhi, the Indian bankers, southern economist, Management Accountant journals of ICWAI and some others journals of the banking Management and commerce are also used for this purpose.

Further, to evaluate the financial performance of financial institutions under study, ratio analysis and percentage analysis has been used.

**Scope For The Study**

Banks need to be vigilant in the years to come for market opportunities particularly with the competition envisaged in the banking sector. In

2000 and beyond, the key element is that banks should strive to achieve significant increase in their productivity, efficiency and profitability. The rapid growth however led to strains in the operational efficiency of banks and the accumulation of NPAs in their loan portfolio. Unfortunately the high level NPAs of banks are adversely affecting the profitability, liquidity and solvency position of the banking sector. Therefore NPAs should be brought down to internationally acceptable levels (i.e. 2-3 percent of loan assets] for creating a vibrant and competitive financial system.

**Objectives of The Study**

The present study is based on performance of commercial banks in India. The study would like to achieve the following objectives to make the study a platform in the field of banking services.

1. To measure the effectiveness of services in commercial banks
2. To conclude and suggest some points to improve the performance of banking services.

**Outcomes**

The liberalization of operation in the banking sector has affected this sector in many ways. It has resulted in both domestic and foreign structural changes, the most important being increasing private participation. The share of private sector banks in total banking system has risen over the years. However, public sector banks continue to dominate the banking system.

Banking sector reforms have helped to improve the profitability of the banking system. This is reflected in their operating and net profits, and improved intermediation indicators. The entry of private banks has resulted in greater competition for public sector banks for the loaning of funds. The entry of other financial institutions has also led to increased competition for public sector banks in sourcing funds. The net result has been an improvement in the overall efficiency of the banking system. These include reduction in overhead expenses and interest margins for domestic banks, and greater pressure on the public sector banks to improve the quality of their services. The efficiency gain has been the most significant in the case of public sector banks. Deposit mobilization and other indicator, such as disbursement of credit, per person deposit and per person credit availability, have shown considerable improvement. The spread of the banking sector has also increased.

**Major Performances Indicators Of Commercial Banks 1996-97 & 2006-07**

| | FOREIGN BANKS | | PRIVATE SECTOR BANKS | | PUBLIC SECTOR BANKS | |
|---|---|---|---|---|---|---|
| Performance indicators | 1996-97 | 2006-07 | 1996-97 | 2006-07 | 1996-97 | 2006-07 |
| Business per Employees | 474.02 | 996.08 | 210.43 | 697.75 | 72.91 | 490.21 |
| Capital risk weighted assets ratio | 62.58 | 12.00 | 12.47 | 12.10 | 8.67 | 12.50 |
| Net NPA as % to net advances | 3.69 | 0.80 | 5.24 | 1.00 | 10.41 | 1.00 |
| Profit per employee | 9.68 | 16.46 | 2.47 | 4.69 | 0.47 | 2.87 |
| Return on assets (%) | 1.10 | 2.27 | 1.49 | 1.03 | 0.58 | 0.94 |

Table shows the trends in some of the major performance indicators of the scheduled commercial banks in India during 1996-97 to 2006-07.

The RBI, which regulates the banking system, has also taken steps to the address governance and ownership issues in the private sector banks. This is in response to problems created by poor risk management and lending practices of some private sector banks following deregulation, which caused a decline in their asset quality and posed risks to depositors. In July 2004 the RBI issued guidelines to ensure a diversified ownership structure in private sector bank, better capitalization, and fair and transparent processes.

Thus banking sector reforms have included prudential measures, competition enhancing measures, steps to increase the role of market forces, and the introduction of institutional, legal, supervisory, and technology-related measures. These have led to considerable improvements in profitability, asset quality and operating conditions.

**Future challenges**

India's banking sector reforms have resulted in competition and efficiency gains, certain problems still exist. Despite improvements in the quality of bank assets, some banks still have higher than the 5% target level for NPA's some of the private sector bank have been subject to fraud and poor risk management practices. Although steps have been taken to better regulate such entities, concerns about investor protection remain.

There is also the problem of the continued interference of the government in the banking system. Such government interference creates problems of administrative autonomy, regulatory failures and conflicts of interests. A key element of financial sector institutions by divesting government ownership in public sector banks. The latter largely depends on progress with fiscal consolidation. The fragmented structure of India's banking system is another issue. Consolidation in the banking system, which is the global trend, is yet to take off in India. A large number of commercial banks, with thousands of branches including many regional rural branches, exist in India. The government has introduced regulations on ownership structures of private banks to encourage the acquisition of stakes by foreign banks, private banks and financial institutions in the private banking system. However, consolidation has been slow and fraught with concerns over retrenchment of worker and protest by unions. The reforms and liberalization agenda in India's banking sector remain unfinished, and future structural changing is likely. Further regulatory strengthening is also required. Most importantly, fiscal and financial reforms have to go hand in hand. Given the current political economy in India, a lack of fiscal reform may ultimately be the biggest obstacle for the further progress of India's banking sector reforms.

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# Recent Trends in Online Shopping : A study of customer behaviour

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**Abstract**

*India is witnessing an online shopping boom as more and more people get comfortable spending money with the click of a button. India's retail industry is responding to the demand from the country's tech-savvy, increasingly wealthy young population. Given the fierce competitive environment to date, there is an increasing trend of introducing new channel(s) to complement their existing one by retailers. Changes in consumer behaviour are indicating that while consumers are searching online using various information sources to learn about products, ultimately when purchasing, consumers are shifting between online and offline retailing channels depending on various factors. The advent of the Internet as a shopping medium has enabled shoppers to gain shopping benefits such as convenience and time-saving, better information, and price savings. The growing use of Internet in India provides a developing prospect for E-marketers. If E-marketers know the factors affecting online Indian buyers' behaviour, and the relationships between these factors and the type of online buyers, then they can further develop their marketing strategies to convert potential customers into active ones, while retaining existent online customers.*

**Keywords:** Internet, website, online retailing, shopping behaviour.

## Introduction

Online shopping has become an increasingly common staple of life in the 21st century. Its popularity can be credited to the fact that convenience is highly valued in our world today. Shopping online offers the opportunity to buy anything and everything you need while on a flight or getting ready for bed. From remote towns to urban metropolises, the Indian consumer is shifting to a more convenient and accessible way of shopping. Rising broadband penetration, ubiquitous mobile telephony, and a secure payments environment are enabling growth of e-commerce in the country, where more and more people are opting for online payments when the option is available.

Online shopping in India is an emerging trend for marketers to promote their merchandise in wide geographical area using internet and the trend looks likely to grow upwards over the coming decade. India seems to have grasped the ability to shop merchandise through internet. Mobile internet is being enormously responsible for opening up the online world to Indian consumers. There are reports suggesting that by the end of 2013 over 300 million Indians will have access to the

internet through mobile phone technology and other platforms, about the same amount of people in USA to put that into context.

**Objectives of the study**

1. To discover how consumers choose retailing channels, the importance of products' attributes in this process and influence of various information sources.
2. To provide recommendations to improve the experience for both consumers and business.

**Research Methodology**

This study is descriptive in nature. The study is based on secondary data which has been taken from case studies, books, journals, newspapers and online databases and websites.

**Factors boosting online shopping in India**

The growth of the online shopping in India is immensely growing and is getting better and stronger day by day. The following are the prominent factors why online shopping has flourished in India:

1. Competition in online market: Competition among the online shopping websites has attracted more customers to go for online shopping.
2. Broadband internet: After 2005, a rapid growth has been seen in the people using internet and currently there are more than 65 million people log-in on to web. This is due to increased internet services and penetration of 3G services that has given faster internet access.
3. Standard of living: The living standard of the people has made them inclined towards online shopping. The increased per capita income has also played its part in this inclination.
4. Availability of wider range: Online market has a much wider range of products than any retail shop. People have found the products online and bought them those are not available at the retail shops.
5. Lifestyle: In this busy lifestyle, lack of time for offline shopping and urban congestion of traffic has led the online shopping market to step up itself.
6. Free classified sites: These sites have been launched where more consumers can buy and sell used goods as well.
7. Discounts and cheap rates: Through offers these sites sell the products to customers. Hence, products can be purchased at lesser price than the offline markets and not sacrificing the quality.
8. Coupons: Availability of different discount coupons on the sites proves to be a great profit for the customers.
9. Improved online banking services: With improved and safer online banking services people are now less afraid to make payments online which in turn gave them faith to shop online.
10. Cash on delivery and home delivery: Cash on delivery along with home delivery has played a great role in the inclination of people toward online

shopping.

All these factors have encouraged people to shop online and have also helped them to transform themselves into better online shoppers.

**Recent updates of online shopping in India**

The E-commerce industry in India is going through some turbulent times, and websites are either shutting down or being acquired. Here is a quick overview of all the e-commerce companies that have either shut shop or been acquired this year. Reports show that out of the millions accessing the internet in India, over 8 million regularly shop through internet. This figure is set to grow exponentially as well. Google is the internet search engine that is predominately used throughout India. Below is a breakdown of top 4 popular searches in 2012 in India.

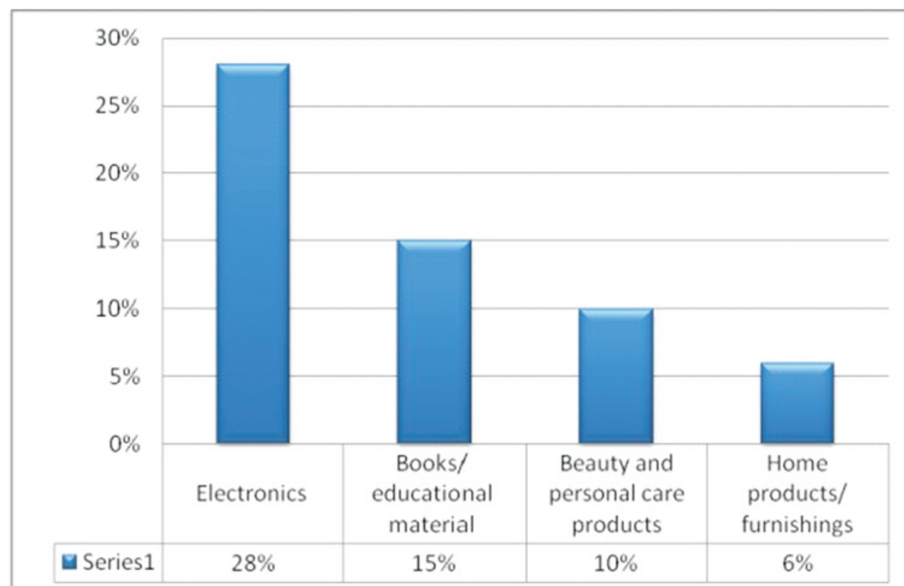
Electronics 28%

Books/educational material 15%

Beauty and personal care products 10%

Home products/furnishings 6%

The market share in India is one of the fastest growing e-commerce markets in Asia-Pacific and the industry expecting it to grow $8.8 billion by end of 2016.India has encountered a great exponential increase in its online market. The youth of our country have contributed a lot to this increase irrespective of the geographical locations. The people of age group 15-25 years literally live and breathe through internet. Purchasing items with just few clicks has become the newest and the latest trend of shopping, which has not only saved time but more importantly money. In today's world, no one has time to walk to different shopping malls or to cover great lands to buy products to fulfill their daily needs.




**Highlights of Great Online Shopping Festival**

The first industry wide 24 hour's online shopping festival “Great Online Shopping Festival” organized by Google India on 12-12-12, has been a huge success with unprecedented number of users coming online to find best deals. The festival saw participations from over 50 leading ecommerce companies in India and was aimed to encourage shoppers to adopt online shopping with the focus to reach out first

time online shoppers. The following are the insights of this event:

1. Myntra.com witnessed many first time shoppers engaged in high value transactions. Shoppers have seen great value in the special discounts offered by Myntra.com specifically for that 24 hour period. Through this offer, they have seen increased in traffic of 75% and over 120% increase in sales with an upward trend on that particular day.
2. Homeshop18.com has recorded 300% increase in sales and most of their electronics and lifestyle offers were sold-out by 3:00pm on that day.
3. Snap deal has seen a jump of more than 50% in their daily traffic.
4. India Times shopping has seen 40% hike in unique visitor's traffic and 70% of transactions using GOSF have been made by new customers who have never shopped on India Times Shopping earlier.
5. Pepperfry.com has recorded 40% growth in traffic and new visitors to the site. There had been a 25+% uptick in items sold & transaction vibrancy is high.

eBay launched virtual stores called "shoppable windows"

eBay launched virtual stores called "shoppable windows" in June 2013 that the e-commerce company hopes will help retailers generate more sales from their existing physical store networks. The company may also use the windows in Kate Spade New York stores to sell home furnishings, bedding, linens and towels.

**Amazon tries to lure India online with free, on-time delivery**

India is Amazon's third emerging market investment after Brazil and China, and one Vice President and Country Manager Amit Agarwal said would take time to pay off.

Online retail sales in India are forecast to grow more than a hundred-fold to $76 billion by 2021 from just $600 million at the end of 2012. E-tail sales in China, by comparison, are expected to grow to $650 billion by 2020 from around $200 billion in 2012, consultants McKinsey predict. Amazon's investors are counting on its international business and expansion to help drive growth and support its $165 billion market value, one of the highest among U.S. firms.

Online shopping touched new heights in 2012,garnered $14 billion in revenue

People turned to the Internet to buy everything from diapers to books, houses and even groceries this year, pushing e-commerce revenues in the country to $14 billion with the possibility of even higher earnings in 2013.Factors like spiralling inflation and slower economic growth failed to dampen the online shopping frenzy as more and more companies opted for selling wares through the internet route, offering innumerable options and discounts to buyers. Increasing Internet penetration and availability of more payment options boosted the e-commerce industry in 2012.Besides electronics, customer traction grew considerably in categories like fashion and jewellery, home and kitchen and lifestyle accessories like watches and perfumes. While travel still comprises a significant portion of the e-commerce market, other segments are catching up fast.

Apparel, books and lifestyle categories (beauty, footwear and health) will drive e-

commerce, and relatively stable and growing domestic economy will also be major growth drivers. The coming year looks promising for the industry. According to Peppercloset.com owner Sumeet Arora, e-commerce segment has doubled to USD 14 billon this year from $6.3 billion in 2011. This figure is likely to reach 38 million by 2015.Thousands of e-commerce websites provide smore personalised offers, loyalty programmes and better customer care is what most e-commerce companies would focus on to offer customers a richer, more relevant online experience, an industry analyst said. According to HomeShop18.com, an innovation that will "revolutionise" e-commerce in India is cost optimisation through warehouse and logistics management that will enable companies to do profitable business. While players like eBay and Indiatimes Shopping have been around for a while, one saw many more portals mushrooming in 2012. An important entry in the Indian market was that of one of the world's largest online retailer Amazon.com. The website launched the desi version as 'Junglee.com'.India also got its own version of 'Cyber Monday' as 'e-tailers' like Flipkart, Snapdeal, Homeshop18 and Makemytrip, partnered Google India to offer discounts for online shoppers.

Among major deals, Snapdeal acquired Esportsbuy.Com, Flipkart acquired letsbuy.Com, Made in health was acquired by Healthkart, Yatra.Com acquired Travelguru from Travelocity Global, Fashionandyou acquired UrbanTouch and Myntra.Com bought SherSingh.Com

As smart phones and tablets continue to proliferate, companies will need to embrace multi-channel commerce strategy in 2013,Purehomedecor.Com owner Sandeep Jaglan said.

Social media would also become crucial as more brands use social data to not just popularise their brands but also personalise experience for customers on their websites.

With more lucrative deals, loyalty plans and newer products hitting the online shelf, netizens can shop to their heart's content. 2013 surely promises to make customer the king for e-commerce companies.

**Online retailing to touch $76 billion by 2021 in India**

The total size of the business of selling retail goods on the Internet, commonly known as e-tailing, is set to touch USD 76 billion mark by 2021 in the country. E-tailing, which is around 6 percent of the total e- commerce, is estimated to be around USD 0.6 billion in 2012.

In India, e-tailing has the potential to grow more than hundred-fold in the next nine years to reach a value of USD 76 billion by 2021. The country's growing Internet-habituated consumer base, which will comprise 180 million broadband users by 2020, along with a burgeoning class of mobile Internet users, will drive the e-tailing story.

The total e-commerce business in India, including other products and services such as travel and financial services, is estimated to be USD 10 billion in 2012. It is

observed in India, the retail market at present is primarily served by traditional brick and mortar stores which make up 93 percent of the total market. Corporatized brick and mortar retail caters to nearly 7 percent, while e-tailing's share is 0.1 percent. The study observed that the brick and mortar formats would undergo a few changes and the share of e-tailing in the total organised retail pie to grow from 0.1 percent at present to 5.3 percent by 2021. The key reason for this disruptive growth lies in the fact that the market-enabling conditions and ecosystem creation for e-tailing will outpace the same for corporatized brick & mortar retail. This growth will offer many advantages to the Indian economy, besides bringing in immense benefits to consumers. With the Internet users spread across the country, it is an opportunity for e-tailers in India. What makes the growth of e-tailing more compelling is the fact that such an Internet-habituated consumer is currently spread across India. It was observed that by 2020, 150 million users will have either a laptop or a personal computer.

Changes in Online Shopping Websites

May-2013

1. Snapdeal acquired Shopo.in, an online marketplace for handicrafts products.
2. Flyte, Flipkart's online music store has shut down its music portal due to lack of consumer uptake.
3. 21Diamonds.com has closed its operation in India due to unavoidable business reasons.
4. KoolKart.com -apparels and fashion products portal has been shut down due to business reasons.

April-2013

5. Myntra.com has acquired San Francisco based virtual fitting room startup Fitiquette.
6. Baby product-seller Babyoye.com merged with Hoopos.com, which also sells baby products.

March-2013

7. Urbantouch.com online fashion retailer for men was shuttered less than a year after it was acquired by clothes retailer FashionandYou.com.
8. Buytheprice.com, a site connecting buyers and sellers was bought by Tradus.com, another site offering a similar service.

Different models

Then there are online specialised retailers like LetsBuy.com (watches, consumer electronic items and home appliances), Caratlane (jewellery), babeezworld.com and babyoye.com (both selling baby products, going up to 120 brands and 1,00,000 products), etc.

Then there are specialised lifestyle brands like 'Sher Singh', the first online retailer of fashion for men and women inspired by the rich heritage of the classic cricket style. E-com companies also follow different distribution models for their services. While companies like Flipkart.com, Naaptol.com and Myntra.com are

investing heavily in building own warehouse (the former two have six warehouses each) and supply chain logistics, portals like Indiaplaza work only with third party suppliers.

What makes online shopping better than real one?

In the last decade, users shopping online have outgrown the actual door- to-door and social shopping. If one were to stoop to word play, then "Window shopping" has acquired a new meaning altogether. No one have to leave their premise to go shopping.

Online shopping has become hugely popular and convenient. Despite which, there are some sceptics out there who think that it is not a feasible alternative to real shopping. The following pointers will help debunk any claims of inadequacy.

1. Rise in reach of consumers via multiple channels

With the availability of mobile apps, the consumer base has increased many folds. Now anyone can choose an item of choice from among a large number of competitors and opt for the best price and deals. One can also use coupons instantly to avail extra discounts or gifts.

2. Consumer reviews have become a good selling tool

Another important aspect of online shopping comes in the form of "customer reviews" which help a consumer see the real side of the product usage rather than sales pitch only. These reviews play a crucial role in helping a consumer deciding whether to opt for a product or not. The more the reviews, the clearer the picture is about how good a product is. This also ensures that fake reviews are averaged out.

Reviews are not only beneficial for consumers but are invaluable source of input to the sellers. Reviews help in assessing the consumers' acceptance and highlighting both the good and bad aspects of a product. In fact they have helped in eliminating fancy applications like virtual dressing rooms and helping a consumer gauge the "likeable" factor via peer shoppers' opinions. To explain this point better, consider this. Standard sizes are universal. The texture, the fit, the size etc. cannot be replicated virtually. Hence the ability to see the stand point view of most of the people who have already purchased the product or the service goes a long way in deciding whether the product become popular or not.

3. Availability of the videos on online shops

Thirdly, a very important feature that helps online shopping become more credible is the availability of the videos on online shops. These videos help the consumer see the product at work, how it is used etc. There is nothing more convincing than seeing the product work rather than hear about it from the sales person or see it in an advertisement. The consumers love a reality check and videos prove to be the best expression because for consumers, visuals are more reliable than words. With more and more online stores allowing consumers upload videos flaunting their products, it has become easier for someone sitting at home to judge a product better than someone who goes to a store to purchase it without any impartial information resource available.

4. Social media tools and applications

The social networking websites like Facebook and Twitter are also playing an important role in engaging the users allowing companies to effectively promote and market their products. The number of “Likes” and “Followers” on Facebook and Twitter respectively gives a clear insight into consumers' reception. They not only help in promotion but also gathering feedback and reviews. Online shopping is safe and reliable. It offers a clearer picture of the product/service one is about to purchase than anywhere else and it is only getting better with time.

Recommendations

1. Promote Online Presence

Make it easy for customers to find your website by using a combination of online and offline marketing tactics. Analytics will show you how users are coming to your website? —? for most websites, search engines and other online referrals, including social media, play a big role. What these reports will not show you are missed opportunities, such as customers ending up on your competitors' websites instead of yours because of their search keywords.

2. e-mail campaigns

Use email campaigns to attract new customers and draw previous customers back to your website. In a recent Forrester study, retailers ranked email as having the highest return on investment (ROI) among their marketing efforts, including paid search, affiliate marketing and Facebook marketing.

3. Instill Confidence in Customers

Instill confidence and trust in customers by prominently displaying clear policies, trust certificates, security badges and contact information. Customers are cautious when asked for personal information, and rightly so, with news of hacked websites being so common. Even established brands that customers recognize and trust can use these techniques to reinforce confidence. Highlight security on secure areas of the website to remind customers that their information is safe; even though browsers have small built-in indicators to show secure areas, reiterate it on the page. Amazon does this through its sign-in button; other websites display a padlock icon near the log-in area.

4.Enhance Product Findability

Enable customers to quickly find and discover products by offering robust search and navigation. Customers will not always start on your home page? —? a search engine or QR code could drop them many levels deep on your website? —? but good navigation and search should help them find their bearings.Create a strong foundation through distinct product categories and user-centric labels that help users explore other areas of the website. Involve users in the design process by conducting exercises such as card-sorting to understand their mental model and to create an architecture that is intuitive to them.

**Conclusion**

Online shopping is a different experience everyone can make the shopping creative over the internet as you get used to it. There can be lot of anxieties about online shopping when you get into it for the first time. As you experience more and more of it those apprehensions get disappeared slowly. Remember that if you stick to the basics, online shopping becomes more enjoyable and easier than real world shopping.

Having access to online shopping has truly revolutionized and influenced our society as a whole. Use of technology has opened new doors and opportunities that enable for a more convenient lifestyle today. Variety of products, quicker services and reduced price are the three significant ways in which online shopping influenced people in India and world as a whole. However, this concept of online shopping led to the possibilities of fraud and privacy conflicts. Today with the latest features of technology, measures are being taken in order to stop hackers and criminals from accessing private databases. Through privacy and security policies, website designers are doing their best to put an end to this unethical practice. By doing so, society will continue to depend upon online shopping, which will allow it to remain a tremendous success in the future.

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# BUY BACK OF SHARES IN INDIA: NORMS AND PRACTICES

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**Abstract**

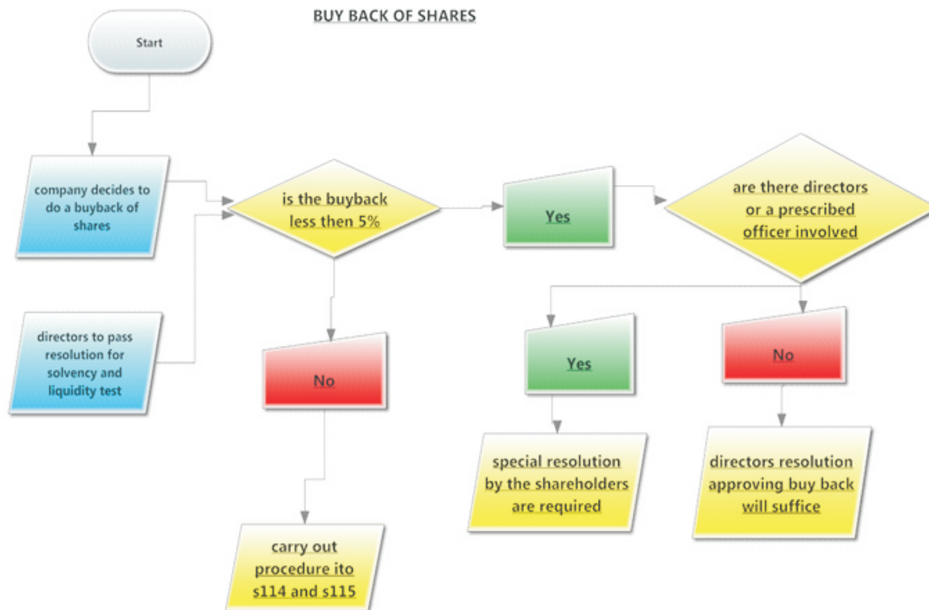
Buy Back of shares has turned into a companies' affair in the financial market worldwide. In a buyback programme, the company distributes the excess cash flow among the shareholders by way of repurchasing its own shares, generally at premium. In India, shares' buy back was introduced in 1999 and has gained attention of all major companies. Buy back is an excellent tool for financial reengineering. Buy back of shares relate to the company buying its share which it has issued earlier from the market. Buy-back of share is nothing but reverse of the issue of share by a company. It means the purchases of its own share or other specified securities by a company. The present study focuses on the norms and practices related to buy back of shares in India and the cases related to buy back of shares. The study is descriptive in nature and the main objective of the study is to have a clear idea about what buyback of shares means and what are the norms which should be followed while going for buybacks.

**Keywords:** Buy Back of shares, Norms, Regulations, Cases, SEBI

**Introduction**

Buy Back of shares has become a companies' event in the financial market worldwide. In a buyback programme, the company distributes the excess cash flow among the shareholders by way of repurchasing its own shares, generally at premium. In India, shares' buy back was introduced in 1999 and has gained attention of all major companies. Since then there has been a spate of announcement of share buy backs. Small investors in India also need to know whether they will benefit by participating in the buy -back offer or they will be better off in the post buy back phase in which companies acquire their own shares to improve earnings per share by reducing the number of shares. Share buy backs by their very nature decrease the total number of shares outstanding with fewer shares outstanding after a buy back and assuming that buy back does not adversely affect the earning of the company , the per share effect of the remaining shares will be increase.

Buy back is an excellent tool for financial reengineering. Buy back of shares relate to the company buying its share which it has issued earlier from the market. Buy-back of share is nothing but reverse of the issue of share by a company. It means the purchases of its own share or other specified securities by a company. In case of buy-back, a company offers to take back its share own by the investors at a specified price of the share in the past few months. The calculation is usually done at a premium on the market price so as to attract more number of the investors, which may vary as per the financial prudence of the company. Companies will do buy back of shares either to increase the value of share still available or to eliminate any threats by shareholders who may be looking for a controlling stake. Until recently, the buy-back of shares by companies in India was prohibited under section 77 of the company act (amendment), 1999; a company in India can now buy-back its own shares. A number of the companies, such as Reliance industries and Ashok Leyland, took advantage of this change immediately and offered to buy-back equity shares. Following is a decision chart on buy back of shares:-




Decision chart on Buyback of Shares

**Review of Literature**

**Dooley (1998)** the study showed that "buy backs and debt equity swaps" allowed developing countries to benefit from market discount on the external debt. It is argued that the benefits of such proposals include capital gains and losses for debtors and creditors as well as increases in domestic investment in debtor countries that would result from narrowing discounts on internal and external debt. The results indicated that the difficult problem is to identify the relevant alternative uses of available funds. **Ikenberry et.al (1995)** assessed the performance of long run firms following open market repurchases announcements in 1980-1990.The results indicated that the average abnormal four year buy and hold return measured after the initial announcement is 12.1%.The study found that the announcement and long returns are combined; the magnitude of the total undervaluation is about 15% a level more consistent with manager's claim of mispricing. The results indicated that the undervaluation is an important reason motivating share repurchases, but other reasons also exists. The study concluded that the book to market is closely associated with long run performance, the initial market reaction to repurchase announcements is surprisingly similar across all book to market groups. **Kahle (2002)** the study showed that how stock option effects the decision to repurchases shares. The study found that repurchases programmes are undertaken both to signal undervaluation to investors and returns free cash flow to shareholders. The study results indicated that in the year 1990, stock options encouraged firms to repurchases shares both to maximize managerial wealth and the value of managerial option. **Orchere & Ross (2002)** examined the information content and information transfer effects of share buyback announcements and used a unique Australian data where the stated reason for buy back is undervaluation of firms' stock price. The study found that such share buy- back announcement signal positive information about the value of both announcers and rivals. The

study concluded that buy back announcements dominate any competitive effects. **Mishra (2005**) the study revealed on buy back of shares in India through open market purchases. It also found that the performance of companies opting for buy back is likely to be effected in the post buy back phase. It observed the impact of share buy back on companies share prices movements. It examined that mean price before share buyback & mean price during share buy- back. The study focused on all 82 companies which have announced, conducted and completed share buy- back programme. **Haribare et.al (2006)** identified that whether firms use stock repurchases to meet or beat analysts earning per share forecasts. The study provided evidence on whether stock repurchases are used to manage reported earnings per share for benchmark beating purpose. The study analysed how investors price earning per shares increases that are attributed to accretive stock repurchase. The study considered two major hypotheses. The study analysed the effect appears to be the greatest among firms with the highest market to book ratio. It also found that investors more heavily discount the repurchases component of earning surprised for firms forecast as result of repurchase. **Mitchmall & Dharmawan (2007) the study revealed that in the US, open market repurchases have a non- standard structure, lack formal procedures and there is low degree of transparency. It observed that signaling incentives in the context of the more transparent Australian buy back environment are substantially greater relative that existing US evidence. It showed that shareholders who wished to participate in the buy-back have an opportunity to sell at a higher share price and shareholders stake. Rajgopalon &Shankar (2012)** the study focused on buy back of equity shares. It considered data from 43 companies for the period 2000-01 to 2009-01. The study examined the impact of abnormal returns and average abnormal return on pre, post event study .The results indicated thatpositive abnormal returns are only two days -10 to-1 frame. The study also found that the post event abnormal returns get turned into negative for two days in +1 to +10 days. **Dol &Wahid (2013) identified the motivating factors for shares buy-back decision of Malaysian companies .The studied revealed that intangible assets, capital expenditure and sales are the underlying constructs for undervaluation of companies shares prices .The result suggested that companies' potential earnings are merely generated from intangibles. Chen &Liu (2013)** focussed on shares pledged by controlling shareholders which effect corporate share repurchases decision. It also found that high pledge companies are more likely to repurchases, especially after a significant drop in share prices. It also observed positive correlation between shares pledged as well as negative relation between shares pledge and announcement effect are not fully.

**Objectives of the Study**

1. To study the norms and practices of buy back of shares in India.
2. To study cases related to buy back of shares in India.

3. To recommend certain suggestions related to buy back of shares.

**Research Methodology**

Research methodology can be defined as a way to systematically solve the research problem by logically adopting various steps. The present study is descriptive in nature and the data used is secondary data which has been taken from websites of SEBI (Securities and Exchange Board of India), annual reports of SEBI and articles from various reputed journals, magazines and newspapers.

**1. Norms and Practices of buy back of shares**

**Provision under the companies' act 1956 for buy-back**

Section 77A 77AA and 77B of the companies Act contains the regulations regarding buy –back of securities.

**Sources for buy-back**

Section 77A (1) of the Act provides that buy-back of share can be financed only out of:-

1. Free reserve :- where a company purchases its own share out of free reserves , then a sum equal to the nominal value of the share so purchased its required to be transferred to the Capital Redemption reserve and details of such transfer should be disclosed in the balance sheet.
2. Securities premium account ; or
3. Proceeds of any shares or other specified securities

**Pre-requisites of a valid buy-back**

Section 77A (2) of the companies act provides that a company can buy-back its share only when,

i. It is authorized by its article of associations.
ii. A special resolution has been passed in general meeting of the company authorising the buy-back.
iii. Buy-back of the total paid-up capital and the free reserve has been made by the board of directors by means of a board resolution passed as a meeting not exceeding 10% of the total paid –up equity capital.
iv. The overall limit to which buy-back of securities may be resorted to by a company is restricted to 25% of the company's paid-up capital and free reserve.
v. The buy-back debt-equity ratio is within the permissible 2:1 range. The central Govt. is empowered to relax the debt-equity ratio in respect of a class of companies but not in respect of any particular company.
vi. The impugned shares/securities must be fully paid-up.
vii. The buy-back share or other specified securities other than those listed on any recognised stock exchange shall additionally comply with the provision of private limited company (buy-back securities 1999)

**Section 77(A) (3)**

According to section 77A (3) the notice containing the special resolution

should be passed and should be accompanied by an explanatory statement stating:

All material facts, fully and completely disclosed;

The necessity for buy-back;

The class of securities intended to be purchased by the buy-back;

The amount to be invested under buy-back;

The time limit for completion of buy-back;

**Time limit of completion of buy-back section 77A (4)**

Section 77A (4) provide that every buy-back is required to be completed within 12 months from the date of passing the special resolution or the board resolution as the case may be or where the resolution is passed through postal ballot, as the case may be.

**Modes of buy-back**

**Section 77A (5)**

A. From the exiting security holder on a proportionate basis.
B. From the open market.
C. From odd lots, that is to say, where lot of securities of a public company, whose shares are listed on recognised stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange.
D. By purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

**Other Formalities for Buy-back**

**Section 77A (6)**

A declaration of solvency is required to be filed by the company with the Registrar and SEBI in the prescribed form Rule 5C and Form No. 4A of the General Rules & Forms before the buy-back is implemented to guarantee its solvency for at least a year after the completion of buy-back.

**Section 77A (7)**

A company after the completion of buy-back is required to physically extinguish and destroy its securities within 7 days of the last day on which the buy-back process is completed.

**Section 77A (8)**

A company buying back its securities is prohibited from making a further issue of securities within a period of 6 months.

**Section 77A (9)**

A company is also required to maintain a register containing the particulars of the bought back securities, including the consideration paid for them, the date of cancellation, the date of physically extinguishing and physically destroying securities and such other particulars as may be prescribed.

**Section 77A (10)**

On completion of the buy-back process, the company shall within a period of 30 days file with SEBI and the Registrar a return containing the

particulars prescribed. A private company and a public company whose shares are not listed on a recognized stock exchange should file the return of buy-back with the Registrar only. Non-compliance with the above mentioned requisites is a punishable offence under Section 77A (11) of the Companies Act.

**Restrictions on the Modes of Buy-back**

**Section 77B**

Section 77B restricts modes of Buy-back. The companies are restricted to Buy-back its shares,

a. Through any subsidiary company including its own subsidiary company.

b. Through any investment companies or group of investment companies.

c. If a default has been made by it in respect of:

i. Repayment of deposit or interest payable thereon, or

ii. Redemption of debentures or preference shares, or

iii. Payment of dividend to any shareholder, or

iv. Repayment of any term loan, or

v. Interest payable thereon to any financial institution or bank.

d. Moreover, a listed company is prohibited from buying back its securities through negotiated deals, spot transactions, private arrangements and insider dealings u/s Regulation 4(2) and 4(3).

**Rules and Regulations of Securities and Exchange board of India**

Procedure for buy-back of securities of a company listed on a stock exchange is explained in Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998.

**Tender offer**

A company may buy-back its shares from its existing shareholders on proportionate basis in accordance with the following provisions:

**Regulation 7**

The explanatory statement annexed to the notice under section 173 of the Companies Act shall contain the following disclosures:-

a) The maximum price at which the buy-back of shares shall be made and whether the Board of Directors of the company are being authorised at the general meeting to determine subsequently the specific price at which the buyback may be made at appropriate time;

b) If the promoter intends to offer their shares,

**Regulation 8**

(1) The company which has been authorised by a special resolution or resolution passed by the Board of Directors at its meeting shall before buy back of shares or other specified securities make a public announcement in at least one English National Daily, one Hindi National Daily and a Regional language daily all with wide circulation at the place where the Registered office of the company is situated and shall contain all the material information as specific schedule II.

(2) The specified date shall not be later than thirty days from the date of the public announcement.

(3) The Company shall within seven working days of the public announcement file with the Board a draft-letter of offer containing disclosures as specified in schedule III through a merchant banker who is not associated with the company.

(4) The draft letter of offer referred to in sub regulation (4) shall be accompanied with fees specified in schedule IV.

(5) The letter of offer shall be dispatched not earlier than twenty-one days from its submission to the Board under sub-regulation (4).

**Buy-back offer procedure under tender offer**

**Regulation 9**

(1) The offer for buy back shall remain open to the members for a period not less than fifteen days and not exceeding thirty days.

(2) The date of the opening of the offer shall not be earlier than seven days or later than thirty days after the specified date.

(3) The letter of offer shall be sent to the security holders so as to reach the security holders before the opening of the offer.

(4) The company shall complete the verifications of the offers received within fifteen days of the closure of the offer and the shares or other specified securities lodged shall be deemed to be accepted unless a communication of rejection is made within fifteen days from the closure of the offer.

**Escrow account**

**Regulation 10**

(1) The company shall as and by way of security for performance of its obligations under the regulations, on or before the opening of the offer deposit in an escrow account such sum as specified in sub-regulation (2).

(2) The escrow amount shall be payable in the following manner,-

(i) If the consideration payable does not exceed Rs.100 Cores - 25% of the consideration payable;

(ii) If the consideration payable exceeds Rs. 100 Cores – 25% up to Rs. 100crores and 10% thereafter.

(3) The escrow account referred in sub-regulation (1) shall consist of Cash deposited with a scheduled commercial bank or;

(4) Where the escrow account consists of bank guarantee, such bank guarantee shall be in favour of the merchant banker and shall be valid until thirty days after the closure of the offer.

(5) In case the escrow account consists of bank guarantee or approved securities, these shall not be returned by the merchant banker till completion of all obligations under the regulations.

**Payment to security holders**

**Regulation 11**

(1) The company shall immediately after the date of closure of the offer open a special account with a bankers to an issue registered with the Board and deposit therein, such sum as would, together with ninety percent of the amount lying in the escrow account make-up the entire sum due and payable as consideration for buy-back in terms of these regulations and for this purpose, may transfer the funds from the escrow account.

(2) The company shall within seven days of the time specified in sub-regulation (5) of regulation 9 make payment of consideration in cash to those security holders whose offer has been accepted or return the shares or other specified securities to the security holders.

**Extinguishment of Certificate**

**Regulation 12 (1)**

The company shall extinguish and physically destroy the security certificates so bought back in the presence of a Registrar to issue or the Merchant Banker and the Statutory Auditor within fifteen days of the date of acceptance of the shares or other specified securities. Provided that the company shall ensure that all the securities bought- back are extinguished within seven days of the last date of completion of buy - back.

**Buy-Back through stock exchange**

**Regulation 15**

A company shall buy-back its shares or other specified securities through the stock exchange as provided hereunder;

(a) The special resolution shall specify the maximum price at which the buy-back shall be made;

(b) The company shall appoint a merchant banker and make a public announcement as referred to in Regulation 8;

(c) A copy of the public announcement shall be filed with the Board within two days of such announcement along with the fees as specified in Schedule IV;

(d) The buy-back of shares or other specified securities shall be made only through the order matching mechanism except 'all or none' order matching system;

Provided that where there is no buy back during a particular period the company and the Merchant Banker shall not be required to publish the details in a national daily.

**Extinguishment of certificates**

**Regulation 16**

(1) Subject to the provisions of sub-regulations (2), the provisions of regulation 12 pertaining to extinguishment of certificates shall be applicable mutatis mutandis.

(2) The company shall complete the verification of acceptances within fifteen days of the pay-out.

**Buy-back through Book Building**

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

**Regulation 17**

17 (1) A company may buy-back its shares or other specified securities through the book-building process as provided hereunder:

(a) The special resolution passed by the Board of Directors at its meeting as referred to in Regulation 5A shall specify the maximum price at which the buy-back shall be made.

(b) The public announcement shall be made at least seven days prior to the commencement of buy-back.

(c) The book building process shall be made through an electronically linked transparent facility.

(d) The number of bidding centres shall not be less than thirty and there shall be at least one electronically linked computer terminal at all the bidding centres.

(i) The offer for buy back shall remain open to the security holders for a period not less than fifteen days and not exceeding thirty days.

(e) The final buy-back price shall be the highest price accepted shall be paid to all holders whose shares or other specified securities have been accepted for buy back.

## 2. Cases related to buy back of shares

Table 1 shows the list of companies who have gone for buy back of shares in India and Table 2 shows the year-wise distribution of buy back and percentage of buy back announcements by companies in India.

| Sr. No. | BSE Code | Name of Company | Opening Date | Closing Date |
|---|---|---|---|---|
| 1 | 30075 | Selan Expoloration Technologies Ltd | 8 Mar 00 | 25 Sep 00 |
| 2 | 620 | Great Eastern Shipping Ltd | 26 Dec 00 | 19 Apr 01 |
| 3 | 330 | Raymonds Ltd | 7 Mar 01 | 30 Apr 01 |
| 4 | 30075 | Selan Expoloration Technologies Ltd | 3-Apr-01 | 22-Nov-01 |
| 5 | 940 | Finolex Industries Ltd | 26-Apr-01 | 26-Mar-02 |
| 6 | 9715 | JayshreeTea and Industries Ltd | 4-Jun-01 | 30-Mar-02 |
| 7 | 32426 | Siemens Ltd | 25 Jun 01 | 17 Jun 02 |
| 8 | 514348 | Winsome Yarns Ltd | 20 Aug 01 | 1 Oct 01 |
| 9 | 620 | Great Eastern Shipping Ltd | 23-Aug-01 | 26-Jul-02 |
| 10 | 500020 | Bombay Dyeing And Manufacturing Ltd | 7-Sep-01 | 23-Jul-02 |
| 11 | 500825 | Britanina Industries Ltd | 10 Sep 01 | 28 Nov 01 |
| 12 | 2165 | OCL India Ltd | 8-Oct-01 | 15-Jan-02 |
| 13 | 502937 | Kesoram Industries Ltd | 9 Oct 01 | 26 Jun 02 |
| 14 | 500086 | Exide Industries Ltd | 10-Jan-02 | 26-Dec-02 |
| 15 | 532424 | Goderaj Consumer Ltd | 21-Jan-02 | 4-Jun-02 |
| 16 | 519552 | Heritage Food Ltd | 24-Jan-02 | 1-Apr-02 |
| 17 | 505250 | G G Dandekar Machine Works | 28-Jan-02 | 2-Jul-02 |
| 18 | 500440 | Hindalco Industries Ltd | 8-Feb-02 | 2-Aug-02 |
| 19 | 500067 | Blue Star Ltd | 15-Feb-02 | 3-Feb-03 |
| 20 | 530075 | Selan Expoloration Technologies Ltd | 10-Apr-02 | 30-Jan-02 |
| 21 | 514348 | Winsome Yarns Ltd | 2-May-02 | 21-Aug-03 |
| 22 | 500940 | Finolex Industries Ltd | 19-Aug-02 | 20-Aug-03 |
| 23 | 532424 | goderaj Consumer Product Ltd | 12-Aug-02 | 30-Sep-02 |
| 24 | 500835 | Britanina Industries Ltd | 5-Sep-02 | 3-Jun-03 |
| 25 | 532261 | Venky's Ltd | 19-Sep-02 | 11-Jun-03 |
| 26 | 522152 | Solitarie Machine Tools Ltd | 21-Oct-02 | 3-Jul-03 |

| Sr. No. | BSE Code | Name of Company | Opening Date | Closing Date |
|---|---|---|---|---|
| 27 | 524715 | Bombay Dyeing And Manufacturing | 7 Nov 02 | 29 Aug 03 |
| 28 | 502937 | Sun Pharmaceuticals Ltd | 7-Jan-03 | 6-Oct-03 |
| 29 | 532424 | Goderj Consumer Products Lltd | 24-Jan-03 | 17-Sep-03 |
| 30 | 502937 | Kesoram Industries Ltd | 27-Jan-03 | 3-Sep-03 |
| 31 | 590008 | ECE Industries Ltd | 24-Feb-03 | 21-Nov-03 |
| 32 | 531525 | Ace Software Exports Ltd | 13 Oct 03 | 24 Aug 04 |
| 33 | 517264 | Fine Line Circuits Ltd | 2 Jun 03 | 15 May 04 |
| 34 | 530075 | Selan Expoloration Technologies Ltd | 19 May 03 | 21 Apr 04 |
| 35 | 523792 | Mazda Ltd | 24 Jul 03 | 11 Aug 04 |
| 36 | 532424 | Goderaj Consumer ProductS Ltd | 30-Oct-03 | 24-Aug-03 |
| 37 | 532424 | Goderj Consumer Products Lltd | 4-May-04 | 15-Oct-04 |
| 38 | 523704 | Mastek Ltd | 27-May-04 | 16-May-05 |
| 39 | 526556 | Avery India Ltd | 21 Jun 04 | 31 Dec 04 |
| 40 | 500825 | Britanina Industries Ltd | 17-Jun-04 | 7-Aug-04 |
| 41 | 500325 | Reliance Industries Ltd | 10-Jan-04 | 5-Aug-05 |
| 42 | 506414 | DIL Ltd | 13-Apr-05 | 18-Aug-05 |
| 43 | 532424 | goderaj Consumer Product Ltd | 23-May | 7-Jul-05 |
| 44 | 500660 | Glaxo Smithkline Pharmaceuticals Ltd | 9-May-05 | 22-Dec-05 |
| 45 | 532544 | Indiabulls Finacial Servies Ltd | 9-Dec-05 | 17-Feb-06 |
| 46 | 500337 | Prime Securities Ltd | 27-Jan-06 | 2-Mar-06 |
| 47 | 505368 | RF Ltd | 3-Jul-06 | 26-Sep-06 |
| 48 | 524816 | Natco Pharma Ltd | 12-Jan-06 | 30-Jul-07 |
| 49 | 505368 | Revaathi Equipments Ltd | 12-Feb-07 | 15-Jan-08 |
| 50 | 524226 | Gujrat Ambuja Exports Ltd | 22 Jan 07 | 28 Jan 07 |
| 51 | 531525 | Ace Software Exports Ltd | 14-May-07 | 28-Sep-07 |
| 52 | 532376 | MRO –Ltd | 4-Jun-07 | 19-Oct-07 |
| 53 | 500710 | ICI India Ltd | 10-Aug-07 | 11-Jul-08 |
| 54 | 500696 | Hindustan Unilever Ltd | 3 Oct 07 | 1 Feb 08 |
| 55 | 500260 | Mardas Cements Ltd | 29 Feb 08 | 7 Apr 08 |
| 56 | 500390 | Reliance Energy Ltd | 17-Mar-08 | 4-Feb-09 |
| 57 | 500390 | Reliance Infra Ltd | 25-Feb-08 | 9-Apr-09 |
| 58 | 526729 | Goldiam International Ltd | 7-May-08 | 23-Oct-09 |
| 59 | 532786 | Great Offshore Ltd | 7-May-08 | 18-Sep-08 |
| 60 | 523704 | Mastek Ltd | 20-May-08 | 24-Jul-08 |
| 61 | 503806 | SRF Ltd | 2-Jul-08 | 20-Apr-09 |
| 62 | 532517 | Patni Computers Ltd | 10-Jul-08 | 28-Oct-08 |
| 63 | 532622 | Gateway Dusstriparks | 11-Aug-08 | 27-Jan-09 |
| 64 | 500173 | Super I Ndustries Ltd | 21-Aug-08 | 24-Mar-09 |
| 65 | 532663 | Saketan Communications Technologies | 15-Sep-08 | 27-Oct-08 |
| 67 | 500339 | Surana Industries Ltd | 25-Sep-08 | 3-Dec-08 |
| 68 | 532424 | E.I.D Pary Ltd | 30-Sep-08 | 21-Jan-09 |
| 69 | 509930 | Supereme Industries Ltd | 4-Dec-08 | 4-Mar-09 |
| 70 | 500125 | DLF Ltd | 8-Dec-08 | 9-Feb-09 |
| 71 | 533000 | ANG Auto Ltd | 15-Dec-08 | 2-Mar-09 |
| 72 | 532868 | DLF Ltd | 28-Jul-08 | 2-Jan-09 |
| 73 | 532951 | GSS American Infotech Ltd | 17-Oct-08 | 4-May-09 |
| 74 | 500227 | al Poly Films Ltd | 25-Feb-09 | 17-Jul-09 |
| 75 | 507912 | L K P Finace Ltd | 22-Dec-08 | 4-Aug-09 |
| 76 | 502157 | Mangalam Cement Ltd | 24-Feb-09 | 22-May-09 |
| 77 | 51344 | Monnet Ispect Ltd | 5-Feb-09 | 5-Aug-09 |
| 78 | 531599 | FDC Ltd | 8-Dec-08 | 22-May-09 |
| 79 | 532515 | T V Today Network Ltd | 16-Mar-09 | 23-Jul-09 |
| 80 | 526775 | Valiant Communications Ltd | 7-Oct-09 | 21-May-09 |
| 81 | 532406 | Avantel Ltd | 27-May-09 | 4-Aug-09 |
| 82 | 500164 | Godrej Industries Ltd | 25-May-09 | 24-Jul-09 |
| 83 | 532475 | Aptech Ltd | 24 Jul 13 | 23 Jan 14 |

**(Source: Websites of Securities and Exchange Board of India, Bombay Stock Exchange & National Stock Exchange)**

From the above table it is clear that total 83 companies have gone for buy back of shares programme starting from the year 2000 and till 2013.

Table 2: Year-wise Distribution of Buy back and % of buy back announcement by Companies in India

| Year | No. Of Buybacks | | Total | % Share of Buy back | |
|---|---|---|---|---|---|
| | Tender Market | Open Market | | Tender Market | Open Market |
| 1998-1999 | 1 | 0 | 1 | 100 | 0 |
| 1999 2000 | 11 | 1 | 12 | 91.67 | 8.33 |
| 2000-2001 | 12 | 3 | 15 | 80 | 20 |
| 2001-2002 | 6 | 23 | 29 | 20.69 | 79.31 |
| 2002-2003 | 18 | 17 | 35 | 51.43 | 48.57 |
| 2003-2004 | 11 | 6 | 17 | 64.71 | 35.29 |
| 2004 2005 | 3 | 6 | 9 | 33.33 | 66.67 |
| 2005 2006 | 30 | 18 | 48 | 62.5 | 37.5 |
| 2006-2007 | 15 | 75 | 90 | 16.67 | 83.33 |
| 2007 2008 | 3 | 7 | 10 | 30 | 70 |
| 2008-2009 | 28 | 4 | 32 | 87.5 | 12.5 |
| 2009-2010 | 9 | 23 | 32 | 28.13 | 71.87 |
| 2010-2011 | 5 | 14 | 29 | 17.24 | 82.76 |
| 2011 2012 | 2 | 27 | 29 | 6.89 | 93.11 |

(Source: Annual Reports of Securities and Exchange Board of India)

## Suggestions and Recommendations

Buy back of shares has certain limitations as it is considered not such an effective defensive tool against takeover, shareholders do not like buyback as they might prefer to increase dividend over the years, it is considered to be a loss to the remaining shareholders if the company pays excessive price under the buyback of shares. Therefore, Capital market regulator SEBI has tightened rules for share buybacks by mandating companies to purchase at least 50% of the offer size, failing which they will have to forfeit 2.5% of the total amount earmarked. In a move aimed to ensure a higher capital commitment from companies, the regulator has made it mandatory for them to put 25% of the amount earmarked for buyback in an escrow account and to complete their share purchase offer within six months from the current 12-month period. The regulator had observed that some companies never buy a single share despite keeping the buyback offer open for an entire year. The regulator's decision to revise the buyback guidelines comes from the hard pressed need to regulate the pricing, quantity and the periodicity aspects of the buyback offers in past.

It is expected that regulator may clarify whether the transfer to escrow account will be over and above the buyback amount in case of the open market process as well as the consequences of not achieving even the minimum required 50% of the offer size. The revised guidelines are also tilted towards encouraging companies to undertake the buyback offer through tender offer process as against the existing popular method of open market process.

## Conclusion

It can be concluded that companies should strictly follow the norms and practices while going for buyback of shares as buy back of shares is an important decision which should be taken after a careful study and analysis of the norms and practices and the results of the previous cases of buy back of shares by companies in India as well as outside India.

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IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

# A REVIEW PAPER ON EMOTIONAL LABOUR AND ITS COPING STRATEGIES

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**Abstract**

Customer contact employees in service positions are often required to display (or, conversely, to withhold display of) a variety of emotions. Such employees are increasingly being required to invest personal identity and expression into their work in many situations. These types of activities, when they're essential to worker performance, are emotional labor. These employees often need emotional management to deal with such situations. **Emotional labor** is a form of emotion regulation that creates a publicly visible facial and bodily display. Emotional labor occurs more often when the job requires frequent contact and long durations of voice contact or face-to-face contact with customers. While emotion work happens within the private sphere, emotional labor is emotional management within the workforce that creates a situation in which the emotion management by workers can be exchanged in the marketplace. Example of professions that require emotional labor are: nurses, doctors, waiting staff, teachers, television actors etc. This paper is about determinants, implications and coping strategies of emotional labour. The paper assumes great importance because with the boom in service sector, service personnel are also increasing and the problem of emotional labour is also getting serious.

**Key words :** Emotional labour, emotional management, emotional work

## Introduction

**Arlie Hochschild** created the term 'emotional labor' in 1983 to describe the things that service workers do that goes beyond physical or mental duties. Showing a genuine concern for customers' needs, smiling, and making positive eye contact are all critical to a customer's perception of service quality. These types of activities, when they're essential to worker performance, are emotional labor.

The sociologist Arlie Hochschild provided the first definition of emotional labor, which is a form of emotion regulation that creates a publicly visible facial and bodily display within the workplace. . According to him, jobs involving emotional labor are defined as those that:

1. Require face-to-face or voice-to-voice contact with the public.
2. Require the worker to produce an emotional state in another person.
3. Allow the employer, through training and supervision, to exercise a degree of control over the emotional activities of employees.

The related term emotion work (also called "emotion management") refers to "these same acts done in a private context," such as within the private sphere of one's home or interactions with family and friends. There are three types of emotion work: cognitive, bodily, and expressive. Within cognitive emotion work, one attempts to change images, ideas, or thoughts in hopes of changing the feelings associated with them. For example, one may associate a family picture with feeling happy and think about the same picture whenever attempting to feel happy. Within bodily emotion work, one attempts to change physical symptoms in order to create a desired emotion. For example, one may attempt deep breathing in order to reduce anger. Within expressive emotion work, one attempts to change expressive gestures to change inner feelings. For example, one may attempt to

smile when trying to feel happy. One becomes aware of emotion work most often when one's feelings do not fit the situation. For instance, when one does not feel sad at a funeral, one becomes acutely aware of the feelings appropriate for that situation.

So, as an economy moves from a manufacturing to a service-based economy, many more workers in a variety of occupational fields are expected to manage their emotions according to employer demands.

**Literature Review**

As stated previously, Hochschild (1983) was the first to coin the term emotional labor. She depicted emotional labor as “the management of feelings to create a publicly observable facial and body display” which is sold for a wage. Ashforth and Humphrey explained emotional labor using a more behavioral approach. They suggested the emotional labor is “the act of displaying the appropriate emotion” (i.e., conforming with a display rule)

Rebecca Abraham (1998) conceptualized the role of emotional dissonance in organizational behavior. Emotional dissonance is a form of person-role conflict originating from the conflict between expressed and experienced emotions. Viewed within a contingency framework, the effect of emotional dissonance on its direct consequences of job dissatisfaction and emotional exhaustion may vary in their intensity depending on the existence (or lack thereof) of moderators and mediators. The study presents nine propositions hypothesizing the impact of these variables to guide future empirical research. As moderators, high levels of self-monitoring, social support and trait self-esteem may reduce the deleterious impact of emotional dissonance on job satisfaction and emotional exhaustion. Alternatively, emotional dissonance may induce job tension and state negative affectivity, and reduce state self-esteem, which in turn, lead to job dissatisfaction and emotional exhaustion. Theoretical and a few practical implications are discussed.

Sandi Mann (1997) illustrated that emotions and their expression are, in fact, controlled and managed in organizations by a wide range of formal and informal means, ensuring that certain emotions are expressed while others are suppressed. Very often, employees are expected to conform to these expectations about emotional display even when they conflict with inner feeling. When this conflict results in individuals suppressing genuine emotion or expressing fake emotion, the work or effort involved in doing so is termed “emotional labour”.

Sandi Mann(2007) portrayed that, while particular types of emotional displays are often essential for team and service work, the negative consequences of conforming with display rules need to be weighed against their true necessity. This research seeks to examine their necessity in terms of the expectations that people have of the emotional displays of others, so that potentially stressful emotional work can be targeted appropriately within organizations. This quantitative study used a questionnaire approach to assess the expectations that 121 UK and 101 US participants have towards the emotional displays of various service providers and work colleagues. Expectations of emotional display were shown to differ across cultures, between jobs and roles within an organization, and between males and females.

Cheok San Lam, Eleanor R.E. O'Higgins (2012) examined the interrelated influences of managers' emotional intelligence, leadership styles and employee outcomes. In particular, this study aims to explore the potential mediating effects of managers' transformational leadership style on the relationships between managers' emotional intelligence and employee outcomes of: employee performance, job satisfaction, organisational commitment and job stress. The study was conducted in two large organisations in Shanghai, China, on a sample of

IJMR
ISSN : 2321-1709
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323 participants, including both managers and subordinate employees. Emotional intelligence was measured by using the Wong Emotional Intelligence Scale (WEIS), and leadership style, using the Multifactor Leadership Questionnaire (MLQ-5x Short). The results showed that managers' transformational leadership style fully mediates the relationship between managers' emotional intelligence and employee job satisfaction The results of this study contribute to current insights about the interrelationships on managers' emotional intelligence, leadership style and employee outcomes, showing that the power of managers' emotional intelligence on job satisfaction must be expressed through a third mediating variable, transformational leadership.

Wendelin M. Kuepers (2011) developed a more comprehensive understanding of the multidimensional, ambivalent and responsive process of transformation, particularly as related to non-cognitive processes and effects of leader- and followership. Based on a critical literature review, advanced phenomenology and a relational approach, the significance of form and embodied, emotional and aesthetic dimensions, potential and effects of transforming in general and transformational leadership in particular are discussed. Transformations in organisations are recognized as an embodied, emotional and aesthetical as well as inter-relational event. With an extended understanding, transformational leadership can itself be transformed into an aesthetically in-formed and more integral practice of leader- and followership. Building on the insights gained, practical, theoretical, and methodological implications are provided. Furthermore, limitations and problems are discussed. The paper contributes to an innovative comprehension and offers critical perspectives on transformative processes in organisation and leadership. By drawing attention to the interrelated embodied, emotional and aesthetic dimensions of transformation, the paper develops a genuine and timely conceptualisation, allowing a creative transformation of conventional understandings and practices of leader- and followership in organisations.

Ivan T. Robertson, Cary L. Cooper (2010) introduced the concept of "full engagement,". This article aims to propose that employee engagement is more likely to be sustainable when employee well-being is also high. Research evidence covering the separate concepts is reviewed and evidence of the benefits that both engagement and well-being confer on organizations is presented. Most current perspectives on employee engagement include little of direct relevance to well-being and reflect a narrow, commitment-based view of engagement. This view focuses too heavily on benefits to organizations. A broader conception of engagement (referred to as "full engagement"), which includes employee well-being, is a better basis for building sustainable benefits for individuals and organization. Research exploring the links between employee engagement and well-being is needed to validate and develop the propositions put forward in this article. A model for improving full engagement in organizations is presented and brief; case study illustrations are also given. The integration of well-being and commitment-based engagement into the single construct of full engagement provides a novel perspective.

Taegoo (Terry) Kim, Joanne Jung-Eun Yoo, Gyehee Lee, Joungman Kim, (2012) aimed to test the antecedents and consequences of emotional labor (EL) acting strategies in the hotel industry. More specifically, the purpose of this study was to examine the impacts of emotional intelligence (EI) on the relationships among EL acting strategies, emotional exhaustion (EE) and service recovery performance (SRP). The survey was administered in five-star hotels in Korea. Frontline employees of the hotels participated in the survey and a total of 353 returned questionnaires were used for data analysis. The research confirmed the importance of EI in the context of EL. The paper provided empirical evidence that

EI affected the EL acting strategies and their consequential behavioral outcomes. The study suggests that hospitality managers must find ways to elevate employees' EI level. Performance management processes should incorporate identification and positive reinforcement of EL acting strategies that enhance SRP and customer satisfaction. This study explored the under-researched subject of EL and its role within a hospitality industry context. The study is among the first to examine EI as an emotional resource, EL acting strategies, EE and SRP as a form of job-related performance simultaneously.

David Martínez-Iñigo, Peter Totterdell, Carlos M. Alcover & David Holman [(2007)] stated that in some occupations, particularly in the service sector, dealing with patients or clients may require an employee to pretend to have emotions that they do not really have, or to actually experience required emotions. The regulation of emotion can be either automatic or controlled. This study extends research on the consequences and processes of emotional labour in two ways. First, it examines how the use of different emotion regulation strategies with patients relates to doctors' emotional exhaustion. Second, it tests two mechanisms that may explain those relationships. A survey of 345 general practitioners (GPs) working in a large urban community in Spain was conducted for the study. The mediating role of interpersonal and intrapersonal factors helped explain the differential associations between the GPs' emotion regulation strategies and their emotional exhaustion.

**Objectives of the study**

1) To understand how emotional labor affects workers.
2) To study about the determinants of emotional labour.
3) To study the implications of emotional labour for the employees and the organizations.
4) To study what organizations can do to support and manage the issues related to emotional labour.
5) To examine the coping strategies of emotional labour.

**Research Methodology**

This is a descriptive study. The researchers have made use of secondary data to arrive at necessary conclusions. The secondary data has been collected to study the various facets of emotional labour and its coping strategies. The secondary data incorporated in the research is the outcome of literature on emotional labour scanned by the researchers from various published and unpublished reports/journals and books etc. The data so collected has been has been shown with the help of various diagrams.

**Determinants of Using Emotional Labor**

1. **Societal, occupational, and organizational norms.** For example, empirical evidence indicates that in typically "busy" stores there is more legitimacy to express negative emotions, than there is in typically "slow" stores, in which employees are expected to behave accordingly to the display rules; and so, that the emotional culture to which one belongs influences the employee's commitment to those rules.
2. **Dispositional traits and inner feeling on the job;** such as employee's emotional expressiveness, which refers to the capability to use facial expressions, voice, gestures, and body movements to transmit emotions; or the employee's level of career identity (the importance of the career role to one's self-identity), which allows him or her to express the organizationally-desired emotions more easily, (because there is less discrepancy between his or her expressed behavior and emotional experience when engage their work).
3. **Supervisory regulation of display rules**; That is, Supervisors are likely

IJMR
ISSN : 2321-1709
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to be important definers of display rules at the job level, given their direct influence on worker's beliefs about high-performance expectations. Moreover, supervisors' impressions of the need to suppress negative emotions on the job influence the employees' impressions of that display rule.

In the past, emotional labor demands and display rules were viewed as a characteristic of particular occupations, such as restaurant workers, cashiers, hospital workers, bill collectors, counselors, secretaries, and nurses. However, display rules have been conceptualized not only as role requirements of particular occupational groups, but also as interpersonal job demands, which are shared by many kinds of occupations.

Companies often place a great deal of strategic importance on service orientation, not only to external customers but to colleagues and internal clients as well. While emotional labor is applicable to many areas of business, the consequences are probably greatest in traditional service roles. However, in an increasingly service-oriented marketplace, it's important to understand how emotional labor affects workers, and what organizations can do to support and manage any issues.

**Implications for employees**

When you engage in emotional labor, you control your feelings to fulfill the goals and expectations of your organization. From a practical standpoint, this means that you either (a) express only your positive feelings, or (b) hide or manage your negative feelings. To deal with negative emotions, people tend to do one of the following:

Show emotion they don't really feel.

Hide emotion they really do feel.

Create an appropriate emotion for the situation.

We can do this using two emotional labor techniques:

**Surface acting** – You fake, or pretend to have, an emotion by using unnatural and artificial body language and verbal communication. Smiling and using a soft tone of voice help you show emotion that you don't feel, or hide emotion that you do feel.

**Deep acting** – You control your internal emotions, directing them to believe that you actually are happy, and enjoying the interaction with the other person. Rather than feel like you're pretending, you convince yourself you're not experiencing a negative reaction.

When you continually need to show only those emotions that are appropriate for the job, despite how you really feel, this can often lead to emotional conflict between your real emotions and those you show to others.

Some researchers believe that emotional conflict like this leads to emotional exhaustion and burnout for workers – and that hiding your emotions on a regular basis leads to high levels of stress, and even a disconnection from close personal relationships. However, other studies have not found a connection between emotional conflict and emotional exhaustion.

A popular theory to explain this inconsistency in research findings is that individuals vary in their ability to deal with inauthentic, or 'pretend,' emotional expressions. Some workers may be able to identify with the organization's values of positive emotional communication, making them better prepared to express appropriate emotions. Also, people who are generally more cheerful and pleasant may be able to turn off negative emotions more easily than others.



Another factor may be a person's ability to recognize different social situations,

and how to behave appropriately. People with more negative personalities and lower social awareness tend to have the hardest time dealing with emotional conflict – and they probably experience emotional exhaustion more easily.

By regularly examining the role of emotional labor in your work, you can help reduce the potential negative effects – and continue to provide high-quality service to internal and external customers.

**Implications for Organizations**

It's important for employees to understand the impact that emotional labor has on their performance. However, it's essential that organizations are also aware of this requirement, so they can find ways to provide support to their workers, and help them deal with the impact of emotional labor.

Service workers typically need to perform in a certain manner if they're going to provide high quality service. This is usually defined by management, then strictly regulated and monitored. For example, customer service rules might be 'The customer is always right,' or 'Always greet customers with a smile.'

Expecting people to work in teams, and show positive team behaviors with their colleagues, adds another element of emotional labor. In fact, many organizations place a growing emphasis on building relationships with a wide variety of stakeholders. This comes with many emotional labor conditions.

**Strategies of Emotional Labour**

It's reasonable to believe that helping people deal with the consequences of emotional labor will improve staff morale and reduce staff turnover. Here are some common strategies that organizations use to help their staff deal with the demands of emotional labour.

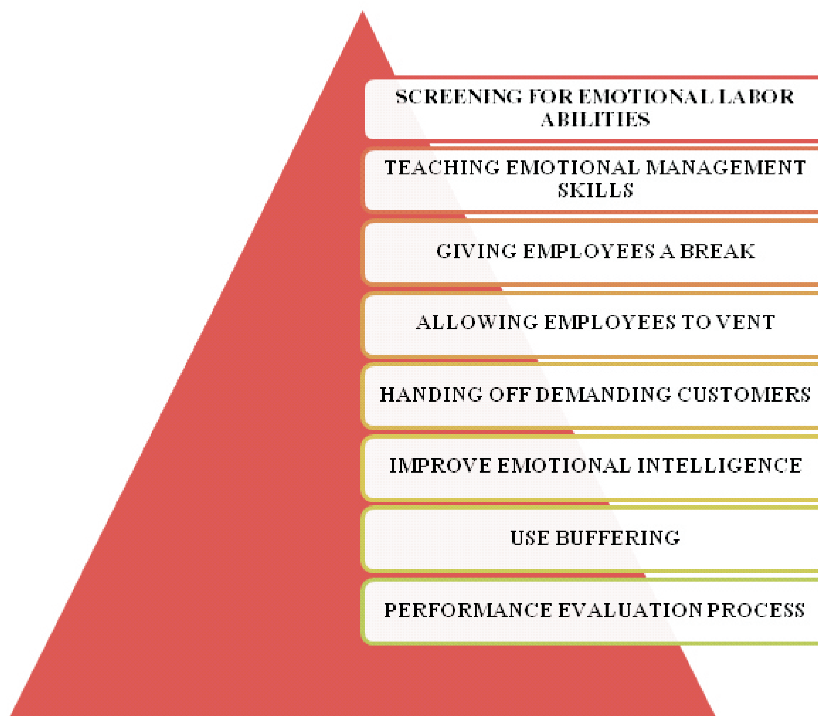


Figure 1: Strategies of emotional labour

**Screening For Emotional Labor Abilities**

Many firms look to hire employees who are well suited to meet the emotional labor requirements of the job. Dungarvin, an organization that provides a variety of services to people who have mental and physical disabilities, displays a realistic job preview on its website to indicate to prospective employees the emotional labor requirements. In doing so, Dungarvin's intent is to identify applicants who are comfortable with the emotional demands required of employees who must regularly interact

with clients with special needs. Call centers often provide job candidates with a realistic job preview, in part, to allow a prospective employee to gauge if he or she is well suited to exert the emotional labor required to interact with customers—often frustrated and unhappy ones—on a continual basis. These simulated customer contact exercises also allow the company to assess the level of friendliness and warmth perspective candidates naturally communicate. Such practices help in identifying employees whose values, background, and personalities match the job's emotional labor requirements.

**Teaching Emotional Management Skills And Appropriate Behaviors**

Most customer contact employees are taught that they need to be courteous to customers. However, customers have no obligation to return empathy or courtesy. In situations in which customers exercise the privilege of “the customer is always right,” employees face real challenges in suppressing their true feelings. Seldom do firms provide much training to assist employees in facing these challenges. Arlie Hochschild identifies two forms of emotional labor: *surface acting,* in which employees pretend to feel emotions that are not really present and, in doing so, and could involve both suppression of felt emotions and faking of unfelt emotions; and *deep acting,* in which employees attempt to experience the real feelings they are expected (or required) to express to the customer, including the active invocation of thoughts, images, and memories to induce the associated emotion. Retail store clerks and airline flight attendants are often encouraged to engage in deep-acting strategies such as imagining that the client is a friend or that the passenger is a frightened little child flying for the first time. Companies may also train employees in how to avoid absorbing a customer's bad mood, perhaps by having employees spend hours role-playing to suppress their natural reaction to return negative customer emotions with their own negative emotions.

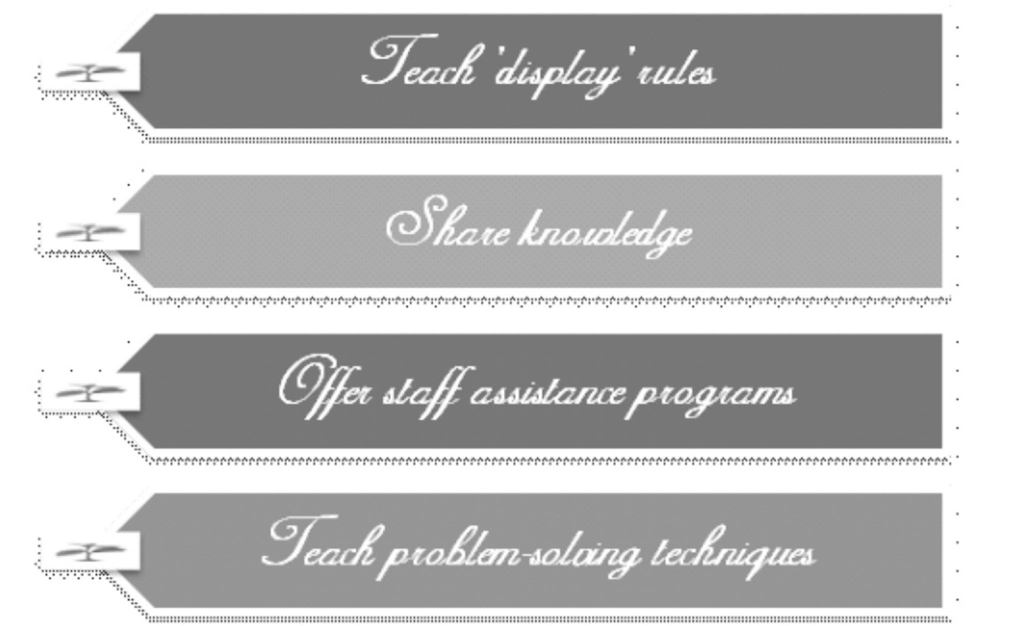


Figure 2: Teaching Emotional management strategies

✓ **Teach 'display' rules** – These are organizationally approved norms or standards that workers learn through observation, instruction, feedback, and reinforcement. Staff are taught how to act, and they may even be given scripts to use when dealing directly with clients. Therapists are taught to act neutrally, retail workers are taught to act positively, and bill collectors are often taught to act aggressive. Combining these display rules with company culture is very important.

✓ **Offer staff assistance programs** – Organizations invest in the care and development of their workers by providing access to stress management and

emotional health services. This strategy recognizes that emotional labor can be hard work.

- ✓ **Teach problem-solving techniques** – To move workers beyond using scripts or relying on other display rules, some companies help their staff solve problems more effectively. This helps people build confidence, and reduce their negative reactions to angry or unpredictable situations. The better that workers are able to deal with problems, the more likely they are to resolve interpersonal issues before they lead to negative emotions.
- ✓ **Share knowledge** – One of the most effective ways to help people deal with the realities of emotional labor is to share success stories. Allow staff to learn how others successfully deal with the impact of emotional conflict.

**Allowing Employees To Vent**

Employees who must exert emotional labor often need to have an outlet to let off steam. Allowing employees to vent lets them get rid of their frustrations. If such venting is done in a group setting, it provides emotional support and encouragement, allows employees to see that others are experiencing the same problems, and delivers a message to employees that the company is aware of and acknowledges the emotional contribution that they have made. RitzCarlton, Wal-Mart, and other companies regularly set aside time for such venting. In addition to the cathartic benefit this experience can provide, other employees may reveal coping strategies that they have found useful.

**Giving Employees A Break**

In situations in which employees have extended voice or face-to-face contact with customers, a particularly helpful strategy is to allow them a short break to regroup. Many companies with toll-free call centers rotate employees into different positions throughout the day so that they do not spend the entire timeon the telephone with customers. Customer contact employees can be reenergized and refreshed after spending a little time away from demanding or difficult situations, even if they take only a few minutes to finish paperwork or complete some other job responsibility. One call center in Australia has a pool table near the employee work area and plays movies while employees work at their desk to reduce the stress of interacting with customers.

**Handing Off Demanding Customers To Managers**

Some customers may be too much for an employee to handle. In such situations, to alleviate pressure on the customer contact employee, firms may shift responsibility for the interaction to managers. Wing Zone, a restaurant chain specializing in chicken wings, understands the stress that angry customers can cause on employees, many of whom are college students. A majority of the company's orders are taken over the phone, and employees—particularly those with little experience—are trained to simply hand off demanding customers to the nearest manager. And a manager who is unsuccessful in handling the situation is encouraged to direct such customers to the corporate office via a toll-free number.

**Use Buffering**

Companies may assign front-end personnel to manage the emotional demands and needs of customers. By the time customers reach back-end workers, they can concentrate on business.

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ISSN : 2321-1709
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**Improve Emotional Intelligence**

The ability to recognize other people's emotions is an effective way to reduce the burden of emotional labor. Building empathy and using other emotional intelligence tools help reduce the likelihood that emotional conflict will lead to emotional exhaustion.

**Bring Emotional Labor Into The Performance Evaluation Process**

Organizations can recognize the importance of emotional labor by measuring workers' emotional effort factors and commitment to customer service. How well do workers deal with angry people? What type of attitude do they bring to work every day? Do they show tolerance and patience? When workers are rewarded for their emotional labor, it provides an incentive for them to show organizationally accepted emotions more often.

Used appropriately, these strategies can take much of the pain out of emotional labor. Indeed, where problems are addressed appropriately, service workers often report tremendous levels of satisfaction when they're able to help clients resolve their problems.

Many people would say that it's important to be **authentic** in all your communications. Clearly, this conflicts with the organization's need for customer service personnel to leave customers feeling positive and happy about their experience. The approaches described above are also useful for helping individuals reconcile these conflicting requirements.

## Conclusion

Emotional labor occurs when workers are paid, in part, to manage and control their emotions. Traditionally, we've seen this in service-oriented professions. But service excellence is now a key driver of success in most organizations, so elements of emotional labor are present in almost all workplaces. It's important to understand the impact of emotional labor, and how it affects workers.

Emotions at work are an important part of company life. It help people understand their reactions to emotional labor, and develop policies and procedures to reduce the negative impact of emotional labor. With the increasing complexities of life, emotional labour is turning into a big challenge. So it is the foremost requirement of every organization to understand the strategies of emotional labour and implement it. Only then we can think of happy and productive employees.

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# Determinants of Under pricing: Indian Evidence

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**Abstract**

The study primarily is conducted to find out the determinants of underpricing on listing day of IPOs. This paper also is an attempt to study the price behaviour of IPOs in India with the help of price performance indicator used in the study average market adjusted abnormal return (Avg. MAAR). A sample of 488 IPOs offered during the year 1993-94 to 2007-2008 has been considered to study the price behaviour of IPOs. Average market adjusted abnormal return (MAAR) is used to determine the level of underpricing on listing day. The summarized view of various characteristics of IPOs has been reported. The zero order correlations among different variables are also reported. It is found through multivariate regression model that subscription has significant positive impact on underpricing.

**Key Words**: Market Adjusted Abnormal Return, Initial Public Offers, Price Behaviour, Underpricing, Subscription, Primary Market, Multivariate Regression Model.

## Introduction

Liberalization has triggered Indian Corporate for expansions. To serve the purpose, IPO is used as the most popular mean to raise the funds from primary market (Annual Report 2011, SEBI). An initial public offer (IPO) is the first sale of stock by a public limited company to general public. It has observed a sharp rise in the initial years of the liberalized era. The growth observed during the first half of the 90s is mostly credited to the financial liberalization of the economy. Capital market reforms like abolition of the office of controller of capital issues (CCI), constitution of SEBI under the new security and regulation act and relaxation in pricing of capital issues played an important role in such rise. Underpricing of IPO is universal phenomenon. The study has been conducted to determine the extent of underpricing in India during year 1993-94 to 2007-08. The objective is also to find out the determinants affecting underpricing.

Indian IPO market has experienced a variable trend. Thus, it is interesting to study the IPO market 1993-94 to 2007-08. Indian IPO market has witnessed boom in 1993-94 to 1996-97. But 1997-98 to 2002-03 can be considered as a cold period for Indian primary market. Although, in year 1999-00 and 2000-01 IPO market

tried to recover but again failed in 2001-02 & 2002-03. During 2004-05 to 2007-08, again Indian IPO market experienced its golden days. These ups and downs attract the researchers to study the Indian IPO market.

## Review Literature

The reviews of the various studies regarding under pricing and determinants of underpricing are as:

*Shah (1995) used* the data of 2056 offerings listed on BSE during 1991-1995, stated that "the listing delay is positively related to the underpricing to the extent that the issuing firm earns the interest rate float on the application money, and to the extent that investors lose liquidity on their application money, they must be compensated for it by enhanced underpricing." Madhusoodhanan and Thiripalaju (1997) analysed the Indian IPO market for the short run as well as long term underpricing (1922 issues listed during 1992-1995).

Krishanmurti and Kumar (2002) analysed 386 IPOs to gauge the initial listing performance of Indian IPOs and to determine as to why IPOs are under priced in India. Results showed that for overall sample the market adjusted return using Sensex as proxy was 72.34 per cent. Singh & Singh,Mittal (2003) covered 500 IPOs floated between years 1992-1996. It was found that an average underpricing was 83.22 per cent. The market adjusted underpricing was 75.16 per cent. The study reported that par issues were more underpriced than premium issues.

Jankiramanan, S (2007) conducted a study on 116 IPOs issued by the companies in the Indian market during the period from 2000 to 2001. The study found that under- pricing exists in Indian Market. Under- pricing was neither a violation of no-arbitrage condition nor a market inefficiency which will disappear when some agents become aware of it. Instead, under-pricing was structural in the sense that it was derived from sound microeconomics underlying the behaviour of firms and investors.

Kumar, SSS (2007) found underpricing of 26.35 per cent for a sample of 156 book-built IPOs offered during 1999-2006. Return on opening price was considered as the major determinant of underpricing.

Shelly, Singh (2008) reported that underpricing is in existence in Indian IPO market. Oversubscription has the positive significant impact on underpricing. Age and Issue Size have significant negative impact. Reputation of the lead managers & dummy industry, both have not significant impact on underpricing.

Sahoo, Seshadev & Rajib, Prabina (2010) covered 92 Indian IPOs issued during the period 2002-2006. It is reported that on an average IPOs were underpriced by 46.55per cent on the listing day.

Jain, Neeta & Padmavathi C (2012) study of 227 book-built IPOs for the period of 2004-2009, found that the average underpricing during this period was 28 percent while the maximum underpricing was around 242 per cent. It is found that high return on opening, high subscription, low pre IPO leverage &high index volatility are the contributing factors for underpricing.

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ISSN : 2321-1709
(Oct.-Dec., 2013)
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**Research Methodology**

**Objectives of the study:**

The study has been carried out to determine Average MAAR of IPOs on listing day and also to construct the multivariate regression model for underpricing on listing day.

***Sample Plan of the study:***

*This study is based on equity shares initial public offers* offered on BSE during 1993-94 to 2007-08. *For the years from 1993-94 to 1996-97, it was not feasible to cover all the IPOs offered due to their large number. Therefore, systematic random sampling is used and 400 companies are selected for the study, but due to non-availability of data 166 are companies finally considered for the study related to this time period. 322 companies have been taken for the years from 1997-98 to 2007-08.Thus, in total a sample of 488 companies has been constituted. The companies which issued right issue, bonus issue & who changed the face value of the share during first three years of the IPO listing have been excluded to maintain the accuracy level of the computations of the return.*

**Data Collection**:

To achieve the objectives of the study, secondary data is used. Secondary data is collected from the different sources such as: annual reports of SEBI, Prowess, Primedatabase, The Economics Times, www.icicidirect.com, www.bseindia.com. & www.sebi.gov. in..

**Analysis Pattern of the Study**:

With a view to know raw return, market return and Market Adjusted Abnormal Return (MAAR) of IPOs the following pattern is used:

Price Behaviour on Listing Day of Indian IPOs:

To examine the price performance on listing day of Indian IPOs, Market adjusted abnormal return of issuing firms and wealth relative have been calculated as under:

Raw Return/Return on a Stock

Ri = (Pi/Po)-1*100

Where, Ri (in %) is the shareholders' raw return, Pi is the closing price on the first day of trading and Po is the offer price.

Return on Market Index

The return on the market index Rm(in %) during the same period is calculated.

Rm=(Pm1/Pm0)-1*100

Pm1 denotes the closing value of the benchmark index on the first trading day of the stock and Pm0 is the closing value on the benchmark index on the offer's closing day. The BSE Sensex is used as the benchmark index.

Market Adjusted Abnormal Return

MAAR=Ri-Rm

Market-adjusted abnormal return ( in %) is calculated as the return on the stock minus the return on a market benchmark (BSE-sensex) over the same period.

Average MAAR= $\frac{1}{n}\sum_{i=1}^{n} MAAR$

**Hypotheses of the Study:**

Two following null hypotheses are assumed:

1. H0: Average market adjusted abnormal return is not significant
2. H0: Independent variables have no impact of Average market adjusted abnormal return

**Results of the Study**

The study is an attempt to examine the pricing behavior of IPOs in India. Therefore, degree of underpricing on listing day IPOs has been reported. It is required to map out the factors affecting the pricing behaviour of IPOs. The summarised view of different characteristics of IPOs and the association among the different variables using zero degree Pearson correlation is reported. Study also explains multivariate regression model to estimate the underpricing on listing day (Average MAAR).

Table 1 explains minimum, maximum, mean, standard deviation and coefficient of variation (CV) of the various features of IPOs such as: offer size (in lakhs Rs.), offer price, post issue promoter holding in percentage, number of times issue subscribed (Subs.), lead time or listing delay in days, age in years, index return in percentage and underpricing of listing day in percentage (AMAAR).

| Characteristics of IPOs ( N=488) | Minimum Value | Maximum Value | Mean | Standard Deviation | Coefficient of Variation |
|---|---|---|---|---|---|
| Offer Price | 10 | 1100 | 80.99 | 124.34 | 153.52 |
| Size(Rs. lakhs) | 75 | 918750 | 13411.55 | 60556.60 | 451.53 |
| Index Return | -20.59 | 24.15 | 1.95 | 7.35 | 376.17 |
| Promoter Hold. | 0 | 89.96 | 53.91 | 16.30 | 30.23 |
| Lead Time | 15 | 4378 | 162.87 | 486.85 | 298.92 |
| Subs. | 0.1 | 283.5 | 17.20 | 31.96 | 185.79 |
| AMAAR | -411.67 | 4128.36 | 82.67** | 317.34 | 383.86 |
| Age | 0 | 137 | 12.02 | 15.57 | 129.58 |

Table 1: Descriptive Statistics of IPOs

*compiled through SPSS

**Significantly differ from zero at five percent level of significance

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ISSN : 2321-1709
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The average offer price of 488 IPOs is 80.99 rupees. The offer price of Jet Airway's IPO is found the highest (1100 rupees). Number of companies has issued IPOs at Rs. 10(minimum value). DLF Limited has launched the biggest IPO in terms of size. The offer size was Rs. 918750 lakhs (91875 million) rupees. Average index return is reported 1.95 per cent.

The post issue promoter holding of Akruti Nirman Limited is noticed the highest (89.96 per cent). City Union Bank, South Indian Bank and Infrastructure Development Finance Company limited have zero per cent post issue promoter holding. Indiabulls Financial Services Limited has taken only 15 days to be listed after closing the offer. On an average company take 163 days to be listed after offer closing in BSE. The IPO of Sankhya InfoTech limited was the most oversubscribed IPO. S Kumars. Com Limited scored the highest average market adjusted abnormal return that was 4128.36 per cent. The Average MAAR is reported 82.67 per cent.

Age of the company is the difference between the incorporation year and the year in which IPO is issued. Therefore, for few companies the age is reported zero, in other words, in the year of incorporation they have launched their IPO. The average age of the companies is found 12.02 years. The variability is compared among the different variable through standard deviation and coefficient of variation. The variability is very high in Size of the IPOs. The coefficient of variation of average MAAR is 386.33 per cent.

Table 2 shows the association between the different variables by using zero order Pearson correlation. The value of correlation coefficient ranges between 0 and ± 1. The following matrix shows the Pearson correlation coefficient.

Table 2 : Correlations among Characteristics of IPOs

| | IPOs Characteristics | Offer price | size(Rs. Lakhs) | Promoter Holding (%) | Subs. | Lead Time | Age | AMAAR | Index Ret. (%) |
|---|---|---|---|---|---|---|---|---|---|
| ffer price | Pearson Correlation | 1 | | | | | | | |
| Size(Rs. Lakhs) | Pearson Correlation | .269** | 1 | | | | | | |
| romoter Holding (%) | Pearson Correlation | .286** | .215** | 1 | | | | | |
| ubs. | Pearson Correlation | .204** | .048 | .123** | 1 | | | | |
| ead Time | Pearson Correlation | -.146** | -.062 | .051 | .040 | 1 | | | |
| Age | Pearson Correlation | .106* | .147** | .189** | .013 | -.115* | 1 | | |
| AMAAR | Pearson Correlation | -.106* | -.043 | .057 | .143** | .174** | -.081 | 1 | |
| Index Ret. (%) | Pearson Correlation | .043 | .046 | -.001 | .141** | .015 | .014 | .007 | 1 |

** Correlation is significant at the 0.01 level (2 tailed), *Sig. at the .05

Correlations among independent variables and the dependent have been reported in table 2. It is noticed that the offer price is significantly, but negatively associated with Average market adjusted abnormal return(Average MAAR). While, lead time and number of times subscribed have positive and significant correlation with MAAR. The post issue promoters holding has negative and the index return has positive correlation with MAAR. But, both correlations with MAAR are insignificant. The independent variables are also correlated but there is no multicollinearity among them. In case zero order Pearson correlation coefficient between two regressors is high ( more than 0.8),then the multicollinearity exits among them.

The Average MAAR has significant positive correlation with subscription and lead time of the IPOs. But it has significant negative correlation with offer price.The subscription is significantly positive associated with offer price and post issue promoter holding.

The variables have been transformed in line with the other studies (Jain Neeta & Padmavathi C, 2012; Shelly& Singh Balwinder, 2008; Singh Balwinder & Mittal R K, 2003) & the following abbreviations have been used in the Multivariate Regression Models:

1. Index Return in percentage( return of BSE before one month issued offered) =IR
2. Post Issue Promoters Holding in percentage= PIPH
3. Natural Log. of Age (difference between incorporation year and year of IPO has been taken and one is added for computation of Nat. log.) =AGE
4. Natural Log. of Offer Size=OS
5. Natural Log. of Offer Price=OP
6. Natural Log. of Lead Time= LT
7. Natural Log. of Number of times issue subscribed=SUB

Natural Log. of Average MAAR= M

Table 3: Descriptive Statistics of Transformed Variables

| Variable | Mean | Std. Deviation | N |
|---|---|---|---|
| PIPH | 53.91 | 16.30 | 488.00 |
| IR | 1.95 | 7.35 | 488.00 |
| AGE | 2.16 | 0.89 | 488.00 |
| OS | 7.51 | 1.86 | 488.00 |
| SUB | 1.71 | 1.50 | 488.00 |
| LT | 3.99 | 1.11 | 488.00 |
| M | 0.26 | 0.66 | 488.00 |
| OP | 3.57 | 1.24 | 488.00 |

*compiled through SPSS

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Table 4: Correlations among Transformed Variables

| | | PIPH | IR | AGE | OS | SUB | LT | M | OP |
|---|---|---|---|---|---|---|---|---|---|
| PIPH | Pearson Correlation | 1 | | | | | | | |
| IR | Pearson Correlation | -.001 | 1 | | | | | | |
| AGE | Pearson Correlation | .192** | .056 | 1 | | | | | |
| OS | Pearson Correlation | .277** | .146** | .489** | 1 | | | | |
| SUB | Pearson Correlation | .168** | .223** | .167** | .308** | 1 | | | |
| LT | Pearson Correlation | .087 | .119** | .322** | .612** | .221** | 1 | | |
| M | Pearson Correlation | .009 | .076 | .117** | .193** | .341** | .098* | 1 | |
| OP | Pearson Correlation | .321** | .078 | .439** | .760** | .377** | .515** | .193** | 1 |

** Correlation is significant at the 0.01 level (2-tailed), *Sig. at the .05

M has significant positive correlation with SUB (.341) and LT (.098). M has significant negative correlation with AGE (-.117), OS (-.193) & OP (-.515). However, M has no significant correlation with PIPH and IR.

To identify the determinants of Average market adjusted abnormal return, multiple regression of Ordinary Least Square (OLS) has been applied. The zero-order correlations of M with IR, PIPH, AGE, OP, OS, LT and SUB have been analysed.
The following multivariate regression model has been used to study the M and its possible determinants.

$$M = a+B_1(IR)+B_2(PIPH)+B_3(AGE)+B_4(LT)+B_5(OS)+B_6(OP)+B_7(SUB)+_e$$

Table 5 depicts the results of model. The value of F is high which rejects the null hypothesis
that independents variables have no impact on MAAR.

Table 5: Multivariate Regression Model- Dependent Variable M

| Independent Variable | Unstandardised Coefficient | Std. Error | Standardized Coefficient | Sig. |
|---|---|---|---|---|
| Intercept | .859 | .231 | | .000* |
| AGE | -.014 | .034 | -.018 | .687 |
| OP | -.151 | .034 | -.286 | .000* |
| OS | -.053 | .024 | -.151 | .029* |
| PIPO | .002 | .002 | .045 | .289 |
| IR | .001 | .004 | .010 | .803 |
| SUB | .210 | .019 | .480 | .000* |
| LT | -.021 | .030 | -.036 | .477 |
| $R^2$ | .247 | | | |
| Adjusted $R^2$ | .236 | | | |
| F- Statistic | 22.509 | | | .000* |

*Significant at five percent

F-value of 22.509 (Sig value 0.000) in the table 5 indicates that the model is robust. Null hypothesis that independents variables have no impact on M has been rejected and it is concluded that Model is a good fit. The value of R square is 24.7 %. It explains that the variations in M can be explained 24.7% by independent variables.

Out of all 7 independent variables OP (Sig. value 0.000), OS (Sig. value .029) and SUB (Sig value 0.000) are found to be significantly contributing to the model. Rest four variables are not significantly contributing to the model. Comparing the standardized beta values again indicate the same as these 3 variables have highest value of standardized beta.

$M = a+B_1( IR)+B_2( PIPH)+B_3(AGE)+B_4(LT)+B_5(OS) +B_6(OP)+ B_7(SUB)+_e$

M =.859 +.001 (IR) + .002 (PIPH) -.014 (AGE) -.021 (LT) -.053 (OS) -.151 (OP) +.210(SUB) +e

It is concluded that SUB has significant positive impact on M of the IPO. IR and PIPH have also positive impact on M but that is not significant. OS & OP have significant negative impact on M. AGE & LT have negative impact on M, but that is also insignificant. It is concluded that SUB, OP & OS have significant impact on M. To verify the result stepwise multivariate regression model is also used.

| Model | | Unstandardized Coefficient | Std. Error | Standardized Coefficient | Sig. |
|---|---|---|---|---|---|
| 1 | (Constant) | .010 | .042 | | .819 |
| | SUB | .149 | .019 | .341 | .000 |
| 2 | (Constant) | .611 | .079 | | .000 |
| | SUB | .211 | .019 | .482 | .000 |
| | OP | .198 | .023 | .375 | .000 |
| 3 | (Constant) | .773 | .108 | | .000* |
| | SUB | .213 | .019 | .486 | .000* |
| | OP | .145 | .033 | .275 | .000* |
| | OS | .047 | .021 | .133 | .029* |

*Significant at five percent

Table 6: Stepwise Multivariate Regression Model – Dependent Variable M

| Model | $R^2$ | Adjusted $R^2$ | F | Sig. | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .116 | .114 | 63.916 | .000 | |
| 2 | .237 | .234 | 75.360 | .000[b] | |
| 3 | .245 | .240 | 52.233 | .000[c*] | 1.828 |

*Significant at five percent

Table 7: M Model Summary

a. Predictors: (Constant), SUB

b. Predictors: (Constant), SUB,OP

c. Predictors: (Constant), SUB,OP,OS

d. Dependent Variable: M

Table 7 explains three models to estimate the M. Model 3 has been considered more robust than others. It has highest adjusted R Square. It is noticed that variations in M can be explained more than 24% through this model. The stepwise regression has been used to find out the strongest model. Both null hypotheses are rejected. Thus, it is concluded that underpricing is in existence in Indian IPO market and M is dependent on independent variables.

Three variables SUB, OP and OS significantly contributed to model. Rest four variable are excluded in step wise regression. Subscription is reported as significant factor also by other studies like, Shelly& Singh (2008), Jain, Neeta & Padmavathi C (2012). Results are also in line with, Shelly& Singh (2008) that smaller size IPOs generating high degree of underpricing on listing day.

**Conclusion**

The study has tested the different Multivariate Regression Models related to underpricing on listing day of the IPOs. In total, four models of underpricing have been tested. The strongest model is based on SUB, OP and OS. It has the highest adjusted R square. SUB has significant positive impact on M. It is also concluded that OP & OS have negative significant impact on underpricing. The contribution of AGE, IR & LT is insignificant, therefore these determinants have been excluded by stepwise method of multivariate regression.

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# Corporate governance in insurance sector

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**Abstract**

Currently, the way in which companies are managed and controlled in India is intensely being scrutinized consequently pushing the subject of corporate governance to the top of the agenda. The focus on corporate governance is particularly crucial in financial services and, most of all, in the insurance sector since this sector has lately become highly exposed to public scrutiny and has learned, in a costly manner, the risk of attracting adverse publicity through failings in governance and stakeholder relationships.

The importance of responsibility, accountability, transparency and fairness are raising the issues of their effect on the performance of the firm and the managers as well. This is closely related to the agency problem because corporate governance mechanisms intend to induce managers to act according to the best interest of the shareholders, which is by maximizing the firm's value and ultimately reducing agency costs.

This study is a contribution to other studies conducted to examine the impact of corporate governance mechanisms on firm's performance of the insurance industry in India, understand how to minimize the agency costs effectively and design the appropriate organizational structure. Also, to distinguish between good and bad corporate governance which is a crucial step in building the market's confidence and attracting positive investment flows to the institution and the economy.

The researcher suggests that every insurance firm should properly define corporate governance and its mechanisms and implement them effectively in order to reach the firm's long-term goals, build stakeholders' confidence and generate positive investment flows.The recent financial crisis has had enormous impacts on the economy, leading to major problems in insurance companies. Therefore, an insurance company should focus on good corporate governance that will build a stable foundation for recovering from this crisis.

**Keywords:** corporate governance, firms performance, insurance sector

## Introduction

According to the Financial Stability Forum (2001), among the main factors the support the stability of any country's financial system include:

- good corporate governance
- effective marketing discipline,
- strong prudential regulation and supervision,
- accurate and reliable accounting in financial reporting systems,
- a sound disclosure regimes,
- the enforcement of effective laws,
- an appropriate savings deposit protection system.

Corporate governance has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of good corporate governance is a major cause of failure of many well performing companies. Existing literature generally support the position that good corporate governance has a positive impact on organisational performance; OECD (2009),

ACCA, (2008), Gompers et al, (2003), Claessen et al, (2002) and others. The economic well being of a nation is the reflection of the performance of its companies. Thus the low level of development of developing nations is attributed to the low level of good corporate governance practices. As a result such countries have been identified by the World Bank and other writers as having inadequate capacity to effectively manage their resources. Hence the emphasis placed on good corporate governance in the existing literature as the most important problem facing the development of countries, such as India.

The concept of corporate governance has been defined as "dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment" (Shleifer and Vishny, 1997, p.737). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests ofstakeholders using incentive mechanism (Shleifer and Vishny, 1997). Good corporate governance is a desired feature of aliberalized market to ensure the flow of both foreign and domestic capital for accelerated economic development. This is because it increases investor confidence and goodwill, ensures transparency, fairness, responsibility and accountability. Gompers et al. (2003) maintained that good corporate governance increases valuations and boost the profitability of the firm.

According to Claessen et al. (2002) better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Donaldson (2003) posit that good corporate governance is important for increasing investor confidence and market liquidity. According to Frost et al. (2002), improvements in corporate governance practices that contribute to better disclosures in business reporting in-turn can facilitate greater market liquidity and capital formation in emerging markets.

The insurance industry is an important component of the financial sector of the economy because of its financial intermediation role. They give protection to policyholders by guaranteeing the safety of their investments against accident and thereby promoting business activities in the country. As a result of the peculiar characteristics of the insurance industry and the significant contributions that is making to the development of the economy coupled with the non existence of such study, there is a strong ground to conduct this research. This article is organised in four parts: the introduction, review of relevant literature, followed by the methodology, discussion of the results and the conclusion.

## Literature Review

The concept of insurance, according to (Gollier C., 2003), involves pooling funds from many insured entities (known as exposures) in order to pay for losses which can occur to these entities. The insured entities are therefore protected from risk for a fee - premium, with the fee being dependent upon the frequency and severity of the event occurring. In order to beinsurable, the risk insured against must meet certain characteristics. Insurance is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses. The requirement to promote good corporate governance, both within and outside the financial services sector, is receiving increased international attention. The IAIS has therefore decided to produce a compilation of the Insurance Core Principle on Corporate Governance which outlines the standards and guidance notably related to various corporate governance aspects, to provide a comprehensive set of regulatory and supervisory best practice on this issue. More importantly, it is proven that countries with good and reliable corporate governance tend to have developed markets where the economic growth can be stimulated, especially with those which rely heavily on external finance and have weak legal environment. So, we can conclude that

corporate governance is not only important to the operating performance and firm's value, but also to the whole country at a macro level (Sapovadia, 2009).
As mentioned before, the financial scandals that hit the market in recent years, and the collapse of so many institutions such as Enron, WorldCom, Commerce Bank and XL Holidays, aligned with the recent financial crisis, forced the firms to concentrate more on good corporate governance and to develop and implement several effective mechanisms in order to have the investors' confidence and faith back again (Young, 2003). According to the Insurance Regulatory and Development Authority in India (IRDA, 2009), the regulatory responsibility to protect the welfare of the policyholders demands that insurance firms have in place, good governance practices for the maintenance of sound long-term investment policies, solvency and underwriting risks on a prudential basis. Any governance principles adopted by the insurance industry should be flexible enough to take into account the variety of insurers within its purview, because obviously "one size doesn't fit all" and each insurance company tailors its corporate governance procedures according to its own circumstances.

According to a research conducted by (Mustafa, et al, 2009) internal control and auditing is a critical dimension of corporate governance. The oversight and reporting systems will allow the board and management to monitor whether the operations are conducted in accordance with the firm's policies or not. It also provides a foundation for the safety and soundness of the insurer and a systematic and disciplined approach for evaluating and improving the effectiveness of the work process and its compliance with the regulations. Mustafa, et al (2009) also mentioned that every insurance company should maintain accurate and verifiable records of all the transactions made. These records include: a premiums register, a premiums ledger, premium reports, a claims register, claims reports, a general ledger, an income statement, and a balance sheet. Each insurance company should audit their accounts and the financial reports annually by their internal audit committee and an external legal audit firm. The audit firm should report directly to the CBB if any fraudulent actions are committed by the insurer.

Why Insurance companies collapse globally

Birla Sun Life
Insurance

- High leverage
- Speculative trading in derivatives and Deviation from core insurance business – (credit default swaps, derivatives and futures)

Not applicable in India

- Submissive and ineffective Board
- Unusual arrangements with related parties
- Secretive and ingrained culture
- Dubious transactions and not-so-transparent accounting policies

Corporate Governance Issues

**Why is Corporate Governance Imperative in Insurance?**

Insurance is a long-term business with uncertainty of risks and returns.An average policy matures over 20 years
Fiduciary relationship - Custodian of large scale public money and Settleclaims judiciously to ensure beneficiaries

None of the company in Indian insurance sector is yet listedPublic disclosure of financials not mandatory

Financial sector is crucial for economic development & growth. Hencemore intensive framework required

Insolvency risk is inversely related to the quality and experience ofsenior management

Protect interest of stakeholders (mainly the policyholders) andrecognize their expectations, including those of regulator.

**Conclusion**

The adoption of good corporate governance practices enhances transparency of company's operations, ensuresaccountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The study examined the relationship between corporate governance and its impact on the performance of insurance companies. The results show that generally corporate governance has positive impact on profitability. The
factors of board size, board and management skill, CEO tenure, size and independence of audit committee, foreign and institutional ownership, dividend policy and annual general meeting, all have positive correlation with the performance of the insurance companies.

The study shows that the insurance companies must have the right board size which is highly independent from the management of the company and with the appropriate skills. This would ensure that the board is well diversified and have the competence to give the strategic direction of the company. Also being able to monitor management and ensure that internal controls are instituted and working. The annual reports and the financial statements of the companies are the main means of communication between the company and the stakeholders. Therefore the sensitive role of the audit committee by ensuring that the financial statements show the true position of the company's performance cannot be over emphasised. The audit committee must be well constituted to increase its independence and with the right size. Again the evidence shows that foreign and institutional shareholders bring a lot of advantages to the local companies that improve their performance. The companies should take measures to attract these all important segment of the investor population.

Furthermore, the result is an indication that the insurance companies are well positioned to support the economic growth and development of the country. With good corporate governance record, the companies would be able to generate more
resources to create more employment opportunities, support businesses through prompt payment of accident claims, pay dividend to shareholders and generate more tax revenue to government. Again, through efficient management of their financial resources, they would be able to support the growth of investment in the economy through their financial intermediation role by channeling resources to the critical areas of the economy.

**Recommendations**

1- The researcher suggests that every insurance firm should properly define corporate governance and its mechanisms and implement them effectively in order to reach the firm's long-term goals, build stakeholders' confidence and generate positive investment flows.

2- The recent financial crisis has had enormous impacts on the economy, leading to major problems in insurance companies. Therefore, an insurance company should focus on good corporate governance that will build a stable foundation for recovering from this crisis.

3- Regarding future line of research, efforts should be put at increasing the sample size, the corporate governance variables, and the time frame in order to have more accurate and reliable results.

4- More importantly, the empirical literature indicates a sample selection bias in favor of very big firms. It is hereby suggested that attention should be devoted to the study of small- and medium-scale firms. This is because these firms account for at least 90% of the total number of firms in the world.

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# CONSUMER PREFERENCE OF HOME LOAN STUDY OF PNB AND ICICI BANK'S

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## Introduction

Banking Institutions have been playing a significant role in the national economic development of the different countries in the world by financing the requirement of trade, industry and agriculture with higher degree of contribution and responsibility. Thus, the development of a country is integrally linked with the development of banking. In a modem economy, banks are to be considered not merely as but also the leaders of development. In India, banks are playing a crucial role in socio-economic progress of the country after independence. Indian banks have been going through a fascinating phase through rapid changes brought about by financial sector reforms, which are being implemented in a phased manner. The current process of transformation should be viewed as an opportunity to convert Indian banking into a sound strong and vibrant system capable of playing its role efficiently and effectively on their own without imposing any burden on government and making its due contribution to the growth and progress of the Indian economy.

The banking activities of lending and borrowing are not new practices in India. Earlier to 20th century, we had indigenous system of banking operated at duster and regional level. After independence, the banks were perceived as instruments of socio - economic Development and were nationalized formally. Presently, the banking industry as a whole has transformed its traditional banking activities into modern banking activities with an innovative dimension of universal banking and core banking. During 1990's our economy was liberalized and deregulated to attract foreign capital flows into India, since that time many financial institutions entered into India with fresh funds and strategic ideas. Before 1990's our public sector and other banks concentrated more on priority sector lending and had accumulated huge non-performing assets. The entry of these foreign financial institutions thrusts competitiveness over Indian based financial institutions. Significantly, the financial sector reform as a whole and banking sector reforms in particular were introduced to develop and improve the performance of banks.

## Competition

The liberalized entry of private sector banks including foreign banks has an impact on the competition of the banking sector. Evidence of increased competition in the post- reform era emerges from three indicators.

(I) There has been a change in the market share of public and private sector banks. It is a sign of increased competition since any changes in favor of private and foreign banks signal the extent to which these banks have been successful by offering lower prices and better services. The market shares of public sector banks in both the deposits and the advances have fallen while those of private banks have been improved.

(ii) Another signal of growing competitions between public sector and private sector banks is non-bank concentration ratio. This ratio gives the total market share of the largest banks in the industry; it is used to measure the extent of competition in a market. Trends in the estimates of four-bank concentration ratio reveal a decline in the post-reforms period; it is due to

the slower growth of the largest banks, all of which are in the public sector. It is also due to the increased competition from private sector banks.

(iii) The third indicator of competition is the quality and range of customer services. There are indicators that the scope and intensity of such competition has certainly increased since the reforms. This is manifested in rapidly increasing use of computer and telecommunication technology by public sector bank in order to provide improved and faster banking services, similar to those provided by private sector and foreign banks. Greater emphasis is also now being paid on value added services such as credit cards and merchant banking. As a manifestation of increased competition, a number of public and private banks have been setting up ATM's introducing tale-banking, providing specialized services and introducing credit card operations. An additional indication of increased quality competition is in the attempt of banks to seek quality certification ISO 9000 from international organizations.[10]

In this context, it will be very useful to undertake a synoptic view of the researches conducted in this field of lending operations of financial institutions policies and practices and the role of financial institutions in Banking Sectors in particular. So, this will indicate the areas in which present research could concentrate more profitably.

**Punjab National Bank**

PNB is the leading bank in India. So, I have chosen this bank for my research project. Punjab National Bank has achieved significant progress in various spheres of business. PNB which ranks 1st among nationalized banks and 3rd among all the banks in the country in terms of assets has the 2 largest branch net work and is recognized as one of the India's most trusted and valuable brands. Punjab National Bank with an asset size of Rs. 1,45,294 crore at the end of March 2006 is the third largest bank after State Bank of India and ICICI Bank. In terms of branch net work, Punjab National Bank ranks next to SBI. With a pan-India footprint, PNB enjoys strong franchise value. The bank offers a wide variety of banking products and services including corporate and personal banking, industrial finance, agricultural finance, housing financing of trade and international banking. Among the banks clients are multinational companies, small and medium industrial units, exporters, NRIs, farmers, individuals etc.

The year 2005-06 witnessed strong growth in real estate sector. In order to top emerging business potential, the company followed the strategy of financing real estate developers as backward linkages to individual housing loans. Further new project were approved so as to give a boost to individual housing loans segment.

**Housing Finance Schemes of PNB**

1. For purchase of plot/land
2. Housing Finance Scheme for public overdraft option titled 'PNB Flexible Housing Loans.
3. Overdraft facility to existing housing loan borrower for personal needs.
4. Scheme for financing property owners against future lease rental.
5. Scheme for finance against mortgage of immovable property

In this context, it will be very useful to undertake a synoptic view of the researches conducted in this field of lending operations of financial institutions policies and practices and the role of financial institutions in Banking Sectors in particular. So, this will indicate the areas in which present research could concentrate more profitably.

**A Profile Of ICICI Bank**[13]

ICICI Ltd. (Merged with ICICI banks on March 20, 2002) establish in 1955, facilitated industrial development in line with the economic objectives over the time. It evolved several new products to meet the changing needs of the

corporate sector. ICICI provided a range of whole sale banking products and services, including project finance, corporate finance, hybrid financial structure, syndication services, treasury based financial solution, cash flow based financial products, lease financing, equity financing, risk management tools, as well as advisory services. There are several schemes in housing finance provided by the ICICI banks. They are becoming India's No. 1 Home Loans Provider. ICICI Bank Home Loans, offer unbeatable benefits to ensure that you get the best deal without any hassles. And we make it extremely easy for you by offering

- Attractive loan interest rates
- Home loan amounts starting from Rupees Two lacs
- Term loans up to 20 years
- Free personal accident insurance
- Insurance options for your home loan at attractive premium
- Special 100% funding for selected properties

With their varied offering of house loan and home finance, ICICI Bank Home Loans give us an opportunity to select the perfect loan as per our needs.

- Adjustable Rate Home Loan
- Fixed Rate Home Loan
- Part fixed, Part Floating Rate Home Loan
- Smart fix Home Loan
- Money Saver Home Loan and also
- Balance Transfer of our existing home loan from other banks

What's more we can also avail of Land Loans, Office Premises Loans, Home Improvement Loans and Home Loan for NRI. They can also leverage your existing property to get a loan against property, property overdraft or Lease Retail Discounting. All of these are available on an adjustable rate or a fixed rate.ICICI can save significant part of your tax liability if you have taken a Home Loan

1. Interest paid on the Home Loan
2. Principal repayment of the Home Loan
3. Bank can take a loan to replace an existing one
4. No fees on part of prepayment
5. Unforeseen contingencies are taken into account

**Scope For The Study**

Banks need to be vigilant in the years to come for market opportunities particularly with the competition envisaged in the banking sector. In 2000 and beyond, the key element is that banks should strive to achieve significant increase in their productivity, efficiency and profitability. At this juncture, there is a need to study the “Management of Housing Loan policies” of the private sector and public sector banks in India due to volatility of capital market. However, an in-depth study is warranted to select a sample of one private bank ICICI and one public sector bank PNB. As such it is proposed to select the Punjab National Bank and ICICI bank for the following reasons:

1. The. Punjab National Bank & ICICI Bank has number of branches operating at present, which is high cost in operating.

2: The Punjab National Bank & ICICI Bank has heavier investment in different sectors, which are slow recovery of mounting NPAs.

3. The investment of the Punjab National Bank & ICICI Bank to farmers from small, Medium and large groups.

**Objectives of The Study**

The present study is based on housing loans schemes of two commercial banks in India. The study would like to achieve the following objectives to make the study a platform in the field of housing finance.

1. To measure the effectiveness of housing loan schemes in both the banks
2. To conclude and suggest some points to improve the performance of
3. Housing loan schemes in commercial banks in India.

4. To study the comparison of working two different banks PNB, a public sector scheduled bank and ICICI, a private sector bank regarding providing the facility of Housing Loan in India.
5. To study the comparison of level of satisfaction of various consumers regarding the availing of Housing Loans of PNB and ICICI in India.

**Research Methodology**

In this study, both the primary and secondary data are used to make the comparison between the housing loans schemes of Punjab National Bank and ICICI. The secondary data are taken from the annual reports of the Punjab national Bank and ICICI (Industrial credit and Investment Corporation of India). Secondary information are also collected from the Website from PNB and ICICI bank, IBA and RBI bulletins, SBI monthly review, PNB VISION-Team ZTC Delhi, the Indian bankers, southern economist, Management Accountant journals of ICWAI and some others journals of the banking Management and commerce are also used for this purpose.

Primary data are also collected through the observations, interviews and questionnaires in order to complete the study. In order to collect the data structured questionnaires was administered to sample customers and executives officials of both the Punjab National Bank and ICICI bank. The data collected through these questionnaires on Housing loan portfolio of the bank is classified, tabulated and analyzed in a systematic manner. The tabulated data is analyzed by the various statistical tools.

Further, to evaluate the financial performance of financial institutions under study, ratio analysis and percentage analysis has been used.

**Data Sources**

The primary and secondary data sources are used in this study. The yearly reports and publication of RBI, Punjab National Bank and ICICI articles published in various business newspapers, journals and books on financial services and banks management are the secondary sources from which the data has been collected and information browsed from related website. The collected data on management and on portfolio of the selected banks i.e. ICICI and Punjab National Bank is classified, tabulated and analyzed in a systematic manner

**Period of The Study**

To prove the role of Punjab National Bank and ICICI bank is providing the housing loan to the needy persons and to test the hypothesis of the study. I have taken the data of five years i.e. 2003-04 to 2007-08. The data of this period enabled me to prove the second and the third hypothesis. That there is no significant difference between the housing loan schemes of both the banks.

**Hypotheses of The Study**

In consonance with objectives of the study, the following hypothesis will be taken for verification and confirmation:

Hypothesis-1

There is no significant difference between PNB and ICICI bank on the basis of formalities, offering and service charges by the banks.

Hypothesis-2

There is no significant relationship between the demography of the customer and opinion about housing loan schemes of PNB and ICICI bank.

Hypothesis-3

There is no significant difference between the level of satisfaction of the consumers of PNB and ICICI bank.

**Developmental Activities Of Punjab National Bank**

| Major Performance | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Total Deposit | 75813 | 87916 | 103167 | 119685 | 139860 | 166457 |
| Total Business | 116041 | 135141 | 163580 | 194312 | 236456 | 285900 |
| Total Assets | 86221 | 102332 | 126241 | 145267 | 162422 | 199020 |
| Retail Advance | 4601 | 6785 | 8402 | 13342 | 14501 | 18834 |
| Operating Profit | 2317 | 3121 | 2404 | 2917 | 3231 | 4006 |
| Net Profit | 842 | 1109 | 1410 | 1439 | 1540 | 2049 |
| Net Interest Income | 3124 | 3625 | 4007 | 4667 | 5213 | 5534 |

Development & Earning Performance During 2003-04 To 2007-08

**SOURCES:** (Punjab National Bank, Banking Ready Reckoner, March 2008)

Table shows the development and earning performance of thr Punjab national bank during the years 2003 to 2008. The overall performances of all segments have the growing trends and earning also increased in the path of development trend. So total deposit, assets and business are continuously in the growing stage in financial structure improvements. Operating profit is also in growth point in the financial soundness. Net profit and net interest income of the concern has significantly increased during the March 2003 as compared to march 2008 in respect of financial earning performance.

| Major Performance | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Total Business | 17.82 | 16.46 | 21.04 | 18.79 | 21.69 | 20.90 |
| Total Assets | 18.25 | 18.68 | 23.36 | 15.05 | 11.81 | 22.53 |
| Retail Advance | ---- | 47.47 | 23.83 | 58.80 | 8.69 | 18.50 |
| Operating Profit | 57.23 | 34.68 | _22.96 | 21.34 | 10.75 | 23.99 |
| Net Profit | 49.76 | 31.64 | 27.19 | 2.07 | 7.00 | 33.00 |
| Net Interest Income | 36.09 | 16.04 | 10.54 | 16.48 | 17.95 | 6.20 |

Ratios Regarding Financial Performance Of Punjab National Bank During 2003-04 To 2007-08

**Sources**: (Punjab National Bank, Banking Ready Reckoner, March 2008)

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ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

Table shows the ratios of Major performances regarding development and earning of total deposit, assets and business of the Punjab National Bank during 2003 to 2008. The ratios of all financial segments have continuously increased and growing path in the performance trends. The bank has also improved the quality of services considerable in the branches during the session 2003 to march 2008. The overall performance of the bank is significantly in the path of progress.

**FINANCIAL PERFORMANCE ICICI BANK DURING 2003-04 TO 2007-08**

The present study would like to analysis the financial performance of ICICI bank from 31st March 2003 to 31st March 2008 to provide empirical results. The following section of the study shows the financial performance.

A Vision On Advances, Deposits And Total Assets Of Icici Bank

(rs. In Crore)

| Year (31 March) | Advances | Deposits | Total Assets |
|---|---|---|---|
| **2003** | 5327 | 4816 | 10681 |
| **2004** | 6264 | 6812 | 12522 |
| **2005** | 9141 | 9982 | 16765 |
| **2006** | 14616 | 16508 | 25138 |
| **2007** | 19587 | 23051 | 34465 |
| **2008** | 22562 | 24443 | 39979 |
| **Avg.** | 12916 | 14268 | 23290 |
| **S.D.** | 7162 | 8354 | 12036 |

Sources: ICICI Annual Reports, 2003-04 to 2007-08.

Table shows the advances, Deposits and total assets for the ICICI bank from 2003 to 2008. The advances for 2003 were Rs. 5327 crore whereas Rs. 22562 crore was in 2008. The average advances for the ICICI bank is Rs. 12916 crore during 2003 to 2008 with S.D. of Rs. 7162 crore. The total deposits for 2003 was Rs. 4816 crore whereas in 2008 the deposits was Rs. 24443 crore. The average deposits for the ICICI bank is Rs. 14268 crore with S.D. Rs. 8354 crore. The total assets of the bank in 2003 was Rs. 10681 crore whereas in 2008, the total assets were Rs. 39979 crore. The average total assets of the bank are Rs. 23290 crore with S.D. of Rs. 12036 crore. The advances, deposits and total assets of the bank are found increasing trend from 2003 to 2008.

A Vista On Net Interest Income And Fee Income Of Icici Bank
(rs. In Crore)

| Year (31st March) | Net Interest Income | Fee Income |
|---|---|---|
| **2003** | 1445 | 847 |
| **2004** | 2185 | 1289 |
| **2005** | 2932 | 2203 |
| **2006** | 3907 | 3447 |
| **2007** | 5637 | 5012 |
| **2008** | 7304 | 6627 |
| **Avg.** | 3902 | 3238 |
| **S.D.** | 2214 | 2248 |

Sources: ICICI Annual Reports, 2003-04 to 2007-08.

Table disclosed the net interest income and fee income of the ICICI bank from 2003 to 2008. The net interest income of the bank in 2003 was Rs. 1445 crore whereas in 2004 the amount for the same variable was Rs. 2185 crore. In 2005, 2006 and 2007 the net interest income of the bank was Rs. 2932 crore, Rs. 3907 crore, and Rs. 5637 crore respectively. The net interest income for the session ending on 31st March 2008 was Rs. 7304 crore which is highest among the periods under consideration. The average net interest income earned by the ICICI bank

during 2003 to 2008 is Rs. 3902 crore with the S.D. of Rs. 2214 crore. However, the fee income for 2003 was Rs. 847 crore which is lowest for the study under consideration. The bank has earned Rs. 1289 crore, Rs. 2203 crore and Rs. 3447 crore for fee income in 2004, 2005 and 2006 respectively. The fee income for 2007 was Rs. 5012 crore whereas the bank has earned Rs. 6627 core in 2008, which is highest among the periods for the study has been considered. The average fee income for the bank is Rs. 3238 with S. D of Rs. 2248 crore. The S.D. for net interest income and fee income is more than the half of the average for the variables. This means that the bank has earned more than the 40% change form its previous earning. It shows the bank's efficiency in maximum utilization of assets.

Return Of Avg. Equity And Return On Avg. Assets Of Icici Bank

| Year (31 March) | Return on Avg. Equity (%) | Return on Avg. Assets (%) |
|---|---|---|
| 2003 | 22.2 | 1.5 |
| 2004 | 21.8 | 1.4 |
| 2005 | 17.9 | 1.4 |
| 2006 | 16.4 | 1.3 |
| 2007 | 13.4 | 1.1 |
| 2008 | 11.1 | 1.1 |
| Avg. | 17.13 | 1.30 |
| S.D. | 4.45 | 0.17 |

**Sources**: ICICI Annual Reports, 2003-04 to 2007- 08.

Table_reported the return of average equity and return on average assets of the ICICI bank from 2003 to 2008. The return on equity for 2003 was 22.2 per cent whereas in 2004, it was 21.8 per cent. In 2005, 2006, and 2007 the return on equity were 17.9 per cent, 16.4 per cent, and 13.4 per cent respectively. However, in 2008 the return on equity was 11.1 per cent. The highest return on equity was in 2003 and 2004 thereafter the return on equity was going to decrease instead of increase. This shows the losses performance of the ICICI bank as the study concern with return on equity.

The average return on equity of ICICI bank is 17.13 per cent with the standard deviation is 4.45 per cent. Moreover, the return of average assets of the bank during 2003 was 1.5 per cent whereas in 2004, it was 1.4 per cent which was less as compared to the previous year. In 2005, 2006 and 2007 the return on assets was 1.4 per cent, 1.3 per cent, and 1.1 per cent respectively. However, in 2008, the return on assets was 1.1 which is same for the last year (2007). The average return on assets is 1.30 per cent with the S.D is 0.17 per cent. The return of average assets is more in previous like 2003 to 2006 as compared to the return on assets for 2007 and 2008. The ICICI bank performance was not good for 2007 and 2008.

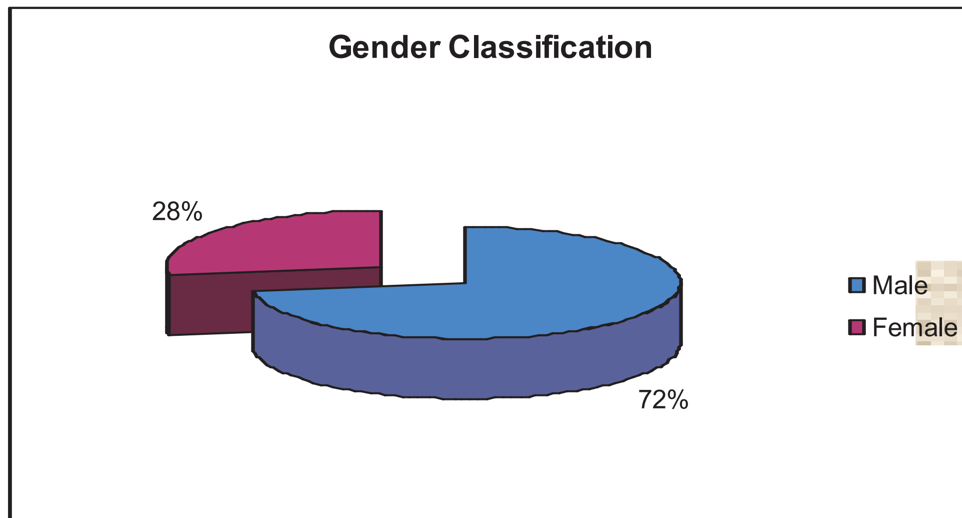
Analysis Framework of Housing Loan Schemes

There is an intense competition among the public and private sector banks in India which intend me to undertake the captioned comparative study on housing loan schemes. Under this chapter an attempt is made to analyze the opinions of the customers which were collected through a structured questionnaire served to all type of customers

Demographic Analysis of the Respondents

Table 1: Gender wise classification of the respondents

| Gender | Frequency | Percentage |
|---|---|---|
| Male | 145 | 72.5 |
| Female | 55 | 27.5 |
| Total | 200 | 100 |




Graph 1: Gender Classification

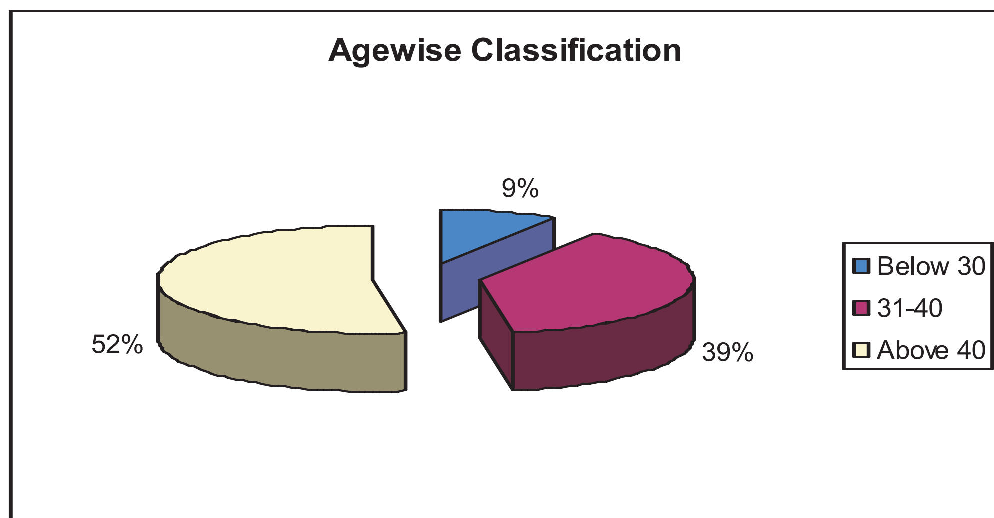
Source: Through Field work

The total number of respondents in this study was 200. Out of them 145 were male and 55 were female. In this study representation of the female is very low comparatively. Its reason is loan account in the family is operated by males. But at the time of filling the questionnaire their views are also incorporated in it.

Table 2: Age wise classification of the respondents

| Age in years | Frequency | Percent |
|---|---|---|
| Below 30 | 18 | 9 |
| 31-40 | 77 | 38.5 |
| Above 40 | 105 | 52.5 |
| Total | 200 | 100 |

Source: Through Field work



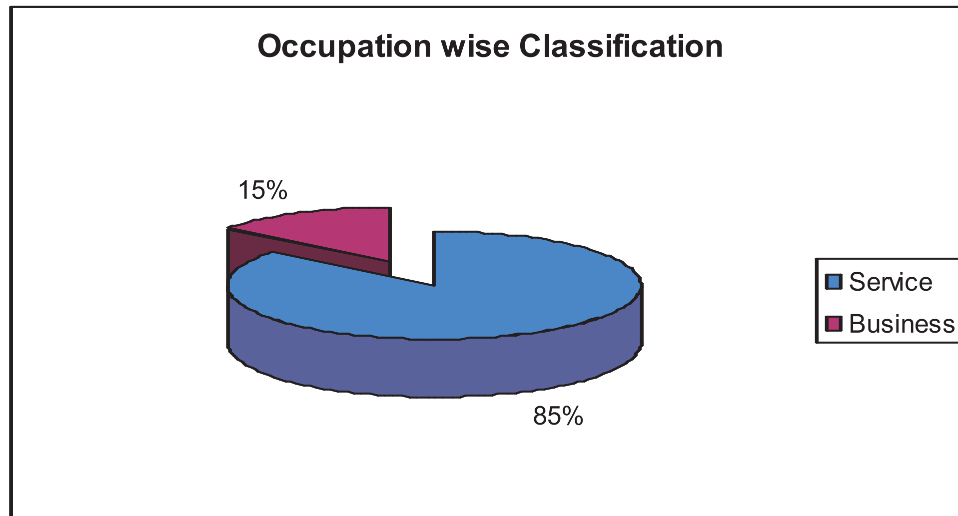

Graph 2 : Age wise classification

From the above table it can be inferred that the percentage of young respondent is highest i.e. 52% while all other percentage is very low i.e.48%. It means that youngsters are more interested to take house loan.

| Occupation | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Service | 171 | 85.5 | 85.5 | 85.5 |
| | Business | 29 | 14.5 | 14.5 | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Source: Through Field work

Table 3 : Occupation wise classification of the respondents



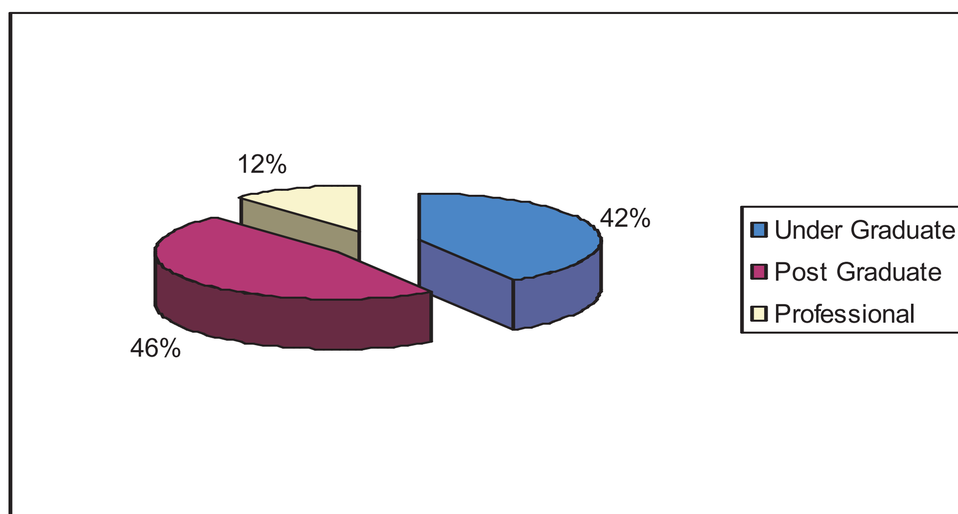

Graph 3 : Occupation wise classifications of respondents

The questionnaires were placed before all. But a maximum number of questionnaires were filled by the service class i.e.85% while the business class replied on a very few i.e. only 15%. In the service class self employed are also included.

| | Qualification | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Under Graduate | 83 | 41.5 | 41.5 | 41.5 |
| | Post Graduate | 94 | 47.0 | 47.0 | 88.5 |
| | Professional | 23 | 11.5 | 11.5 | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Table No- 4 Education wise classification of the respondents Qualification of respondents

Source: Through Field work




Graph 4 : Education wise classifications of respondents

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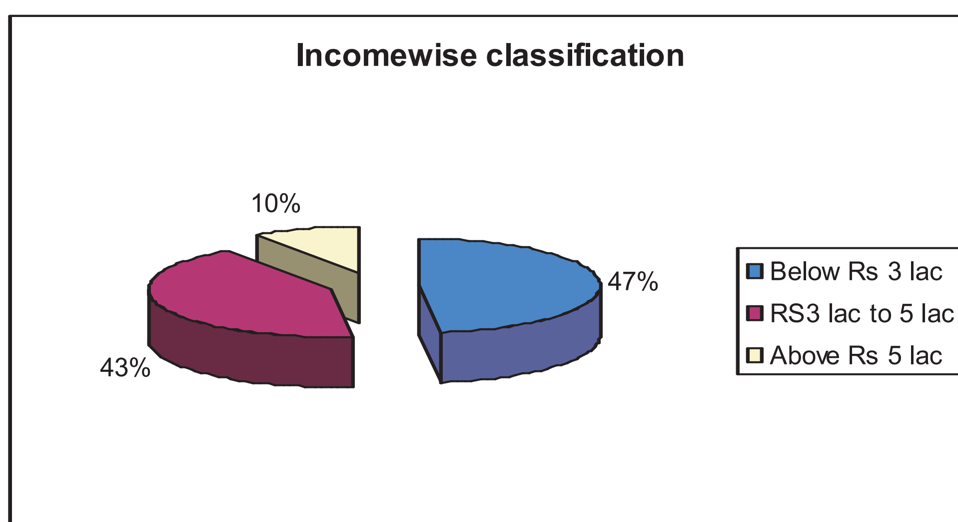
The respondents of the questionnaire were qualified. Around 46% of the respondents were post graduates and 42% under graduates from different disciplines as commerce, arts and science and rest was professionally qualified including management, computer science and medical.

Table 5 : Income wise classification of the respondents Income of respondents

| | Income | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below Rs 3 lac | 96 | 48.0 | 48.0 | 48.0 |
| | Rs.3 lac to 5 lac | 85 | 42.5 | 42.5 | 90.5 |
| | Above Rs 5 lac | 19 | 9.5 | | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Source: Through Field work



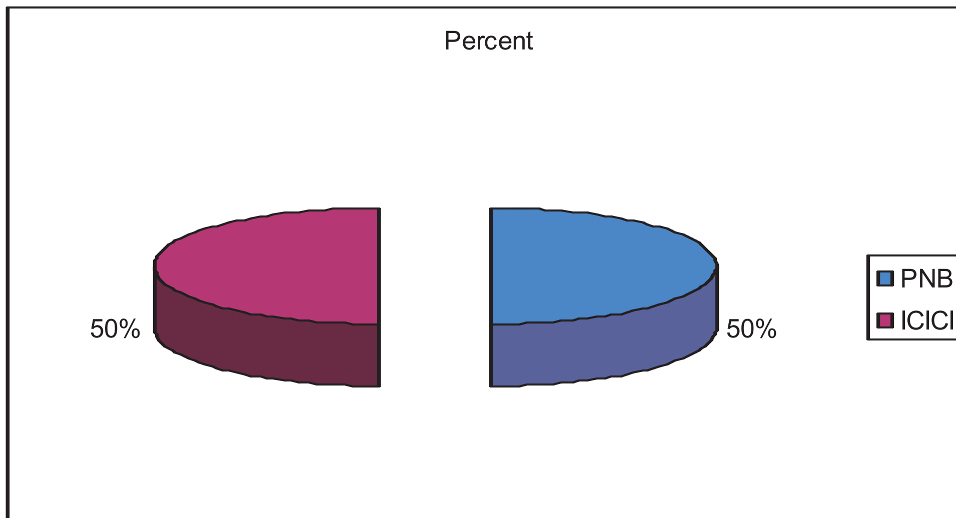

Graph 5 : Income wise classifications of respondents

The annual income of the respondents is classified in the above table No-5 from this table it can be inferred that maximum percentage of respondents is 47% which belong to below Rs. 3 lacs followed by 43% of the respondents belong to income group of Rs.3 to5 lac. Only 10% of the respondents belong to the income group of above Rs 5 lacs.

Table 6 : Bank wise classification of the respondents Name of bank

| Name of the Bank | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | PNB | 100 | 50.0 | 50.0 | 50.0 |
| | ICICI | 100 | 50.0 | 50.0 | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Source: Through Field work




Graph 6: Bank wise classification of respondents

The total number of respondent was 200. These respondents were from the public sector (PNB) and private sector (ICICI) bank from India. Its percentage was 50%-50%. On the basis of it the housing loan policies of these sectors are analyzed in this chapter.

| **Variables** | | **Type of Bank** | |
|---|---|---|---|
| | | **Punjab National Bank** | **ICICI Bank** |
| | | **Col %** | **Col %** |
| Type of Interest | Floating Rate of Interest | 45.0% | 52.0% |
| | Fixed | 12.0% | 27.0% |
| | Both | 43.0% | 21.0% |
| Rate of Interest | 8 to 10 Percent | 82.0% | 72.0% |
| | 10 to 12 Percent | 17.0% | 24.0% |
| | 12 to 14 Percent | 1.0% | 4.0% |
| Loan Processing Charges | Nil | 19.0% | 23.0% |
| | Below 2% of Loan Amount | 79.0% | 74.0% |
| | 2% or Above of Loan Amount | 2.0% | 3.0% |
| Processing Time | 15 Days | 42.0% | 61.0% |
| | One Month' | 46.0% | 33.0% |
| | Two Month | 12.0% | 6.0% |
| Number of Witness | No Need | 8.0% | 28.0% |
| | Two | 88.0% | 66.0% |
| | Three | 4.0% | 6.0% |
| Tenure of Loan | 10 Years | 24.0% | 29.3% |
| | 15 Years | 27.0% | 30.3% |
| | 20 Years | 49.0% | 40.4% |
| Cheque Bouncing Charges | None | 11.0% | 26.0% |
| | Below Rs. 300 | 84.0% | 67.0% |
| | Above Rs. 300 | 5.0% | 7.0% |
| Documents Required | Pan No. and Income Proof | 4.0% | 5.0% |

Table 7: Percentage of Respondents of Banks on Various Variables

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| | | | |
|---|---|---|---|
| | Age Proof | 1.0% | 1.0% |
| | Address Proof | 5.0% | 3.0% |
| | Above all | 90.0% | 91.0% |
| To Enhance the Eligibility | Spouse in earning | 44.0% | 39.0% |
| | Fiance's Income | 3.0% | 25.0% |
| | Security (Bank FD, LIC etc.) | 53.0% | 36.0% |
| Technical Valuation of the Property | Yes | 87.0% | 95.0% |
| | No | 13.0% | 5.0% |
| Personal Life Insurance Free of Cost | Yes | 14.6% | 37.0% |
| | No | 85.4% | 63.0% |
| Home Loan Safety Insurance | Yes | 18.8% | 40.4% |
| | No | 81.3% | 59.6% |
| Shifting Charges from Fixed to Floating | 1.50 % | 33.0% | 34.7% |
| | 2 % | 61.9% | 51.0% |
| | More than 2% | 5.2% | 14.3% |
| Extension of Time | One Year | 35.4% | 39.4% |
| | Two Year | 45.8% | 42.4% |
| | Five Year | 18.8% | 18.2% |
| Margin Money | 80% | 93.8% | 77.0% |
| | 90% | 6.2% | 22.0% |
| | 100% | | 1.0% |
| Take Over Facility | Yes | 72.2% | 78.8% |
| | No | 27.8% | 21.2% |
| Purpose of Loan | Purchase of Home | 75.3% | 46.0% |
| | Construction | 15.5% | 50.0% |
| | Renovation/Repair | 9.3% | 4.0% |
| Eligibility Norms | At Least 21 Year of Age & Termination of Loan before 65 Year | 18.6% | 24.0% |
| | Govt. Service Employee | 81.4% | 62.0% |
| | Self employed Person | | 14.0% |
| Minimum Time for Closing the Loan | One Week | 46.4% | 38.0% |
| | 15 Days | 35.1% | 51.0% |
| | One Month | 18.6% | 11.0% |
| Early Payment charges | 1% | 73.2% | 40.0% |
| | 2% | 8.2% | 42.0% |
| | None | 18.6% | 18.0% |

Source: through SPSS

The above comparative table indicates the various percentages of the of the respondents of the Punjab National Bank and the I.C.I.C.I. bank on the basis of the different variables of the questionnaire. In our questionnaire, there were twenty one multiple choice questions for the respondents. Most of the questions were replied the respondents of both the banks. On observing the above table it is found that the tendency of replying of the questions of both the banks is near about same. Percentage of respondents of the Punjab National Bank on the margin money is the highest i.e. 93.8% for 80% of loan amount of the total cost of the property.

Same is also in the case of I.C.I.C.I. bank i.e. 77%. In both the banks housing loan policy is same if a person has to take a house loan. Both the banks sanction a maximum number of loans for the purpose of purchasing a house and least for the renovation of house.

Finding of the Analysis

The banking sector in India is going under a great competition. Day by day banks are offering new and new rate for the house loan customers. The customers are getting confusion that which bank is better for them and which not. In such a situation they have to do the analysis of these policies. So for the analysis of these policies they have to decide the various parameters/attributes. This study reveals the perception of the customers of the PNB and ICICI Bank regarding the house loan and their level of satisfaction with their relative banks.

Finding Relating to Demography of the Respondents of the PNB & ICICI Bank

- The total number of respondents in this study was 200. Out of them155 were male and 45 were female. Although the representation of female is comparatively very less because maximum female accounts are managed by male.
- It is found that maximum number of house loan taker belong to the age group of Above 40 years. Its percentage comes around 52.5%. The least number belongs to the age group below 30 years.
- The occupation of the respondents is found mainly from the service class category which comprises 85.5% and the rest is from business class i.e.14.5% only.
- About the qualification about 47% respondents are postgraduates of the mixed streams like arts, science and commerce etc. 41.5% of the respondents belongs to graduates and only 11.5% respondents are professionally qualified. The professionally qualified includes the technology, medical, management etc. It is given under other qualifications.
- About the annual income of the respondents, it was found that 48% of the respondents belong to the income group below Rs. 3 lac followed by 42.5% fall in the category of Rs. 3-5 lac. Only 9.5% respondents come from the income group of above Rs. 5 lac.

Finding Relating to Bank wise Classification of the Respondents

- Total 210 questionnaires were served among the different customers of the public sector bank (Punjab National Bank) and private sector bank (ICICI Bank). Among these 200 were found usable for analysis and rest 5% were invalid. 50% respondents were from PNB and 50% were from ICIC Bank.
- The most of the respondents were salaried persons and were having salary account with these banks. They also took the house loan against the salary account.

Finding Relating to the Comparison of Housing Policies of the Banks

As stated earlier to make the comparison of the housing loan schemes of the public sector and private sector opinions of the customers were collected through questionnaires. Twenty one (21) attributes were identified from the literature review and data was collected on the multiple choice questions. The major findings of the study on comparison are given below:

- In both the banks the maximum number of customers likes the floating rate of interest and they like 8-10% rate of interest on house loan per annum and there is a least number of customers who wants the higher rate of interest.
- The maximum percentage is of those respondents who like to pay the processing charges below 5% in both the banks. It is 79% and 74% in Punjab

National Bank and ICICI Bank respectively.

· When we compare the opinions of the respondents of the basis of processing time taken by the banks for sanctioning the loan, we find them different. In the case of Punjab National Bank, it is found one month and in ICICI bank 15 days. It indicates that private bank (ICICI bank) is better on this point.

· Formalities for sanctioning the house loan both the banks are adopting the same policies as number of guarantors (witness) and documents required for the loan.

· Cheque bouncing charges of both the banks is below Rs. 300 of both the banks. It means both banks are having the same policy on the cheque bouncing charges.

· The PNB likes to extend the loan limits on the basis of securities as LIP, FD of bank etc. while in the case of ICICI bank it is preferred by the income of spouse and second preference is given the securities of the borrower.

· Punjab National Bank as well as ICICI Bank prefers to sanction the house loan to the borrower for tenure of 20 years if the borrower fulfills the eligibility norms.

· Technical valuation of the property is done both the banks PNB and ICICI bank before sanctioning the house loan. On getting the clarification from court in the form of NEC, both the banks sanction the house loan.

· Punjab National Bank as well as ICICI Bank are not providing personal life insurance and house loan safety insurance to the borrowers at the free of cost. They are charging high cost against these products.

· If the borrowers want to shift from fixed to the floating rate of interest of loan, both the banks are charging 2% extra on the balance of the loan amount. Thus the housing loan policies of both the banks are same at this attribute.

· Generally there is a provision to extent the time for the construction of house of two years in the housing loan polices of both the banks. Banks hesitate to extent this time unto five years.

· From the above table it is clear that Punjab National Bank and ICICI bank are sanctioning the housing loans the borrowers up to the 80% of the registered value of the property. It means both the banks are taking a margin of 20%.

· Loan taking over facility by some other banks is being provided by both Punjab National bank and ICICI bank to their customers. In our survey it was 72.2% and 78.8% in PNB and ICICI Bank respectively.

· As per the housing loan policy of the PNB the maximum loans are provided for the purchase of the house while ICICI Bank prefers to sanction loan for the purpose of construction of the house. And both the banks sanction the least number of loans for renovation or repair of the house.

· Punjab National Bank and ICICI Banks prefer to provide the housing loan facilities to the Government employees and a least number of loan is given to the self employed persons.

· Punjab National Bank takes minimum one week's time to close the loan account of the borrower while ICICI Bank takes minimum time to close the loan account of fifteen days. Thus on this variable the policies of both the banks differ.

· For making the early payment of house loan to clear the account, the Punjab National Bank charges 1% extra on the outstanding balance of the account but ICICI Bank charges 5% extra on outstanding balance of the account. Here both the banks are functioning differently.

**Conclusion**

All these conclusions are provided in accordance with the objectives of the study. In this study few of the Demographic characteristics of customers availing the Housing Loan facility were studied and these are few important conclusions regarding Demographic Characteristics of the consumers taking the Housing Loan in India

1. Despite the low rate of registry charges for females, the majority of loan seekers for the Housing needs are males.
2. Most of the Housing Loan seekers are from Service class.
3. Most of the Housing Loan seekers are from the above 40 age group.
4. Most of the Housing Loan seekers are qualified.
5. Majority of Housing Loan seekers are having income less 5 lacs p.a.

To study the pattern of Housing Loans in India, few aspects of Housing Loan were discussed with the various consumers of Housing Loan of two different leading Banks of the India.

The following are the few important conclusions regarding the technical Characteristics of Housing Loan availed/preferred to avail by Housing Loan consumers.

1. Every Housing loan taker prefers to avail the floating rate of interest or floating and fixed both, least number of persons prefer fixed rate of interest for their Housing Loan.
2. Most of the Housing Loan takers Loan at the rate of interest ranges within 8% to 10%.
3. More the 50% of Housing Loans are passed for 20 years.
4. Banks prefer to provide loans to Govt. Employees.
5. In most of Housing Loans the loan processing charges are less than 2% of the Housing Loan.
6. The Shifting charges of banks for shift the housing loan from fixed interest rate to floating is less than equal to 2% extra on the balance of the loan.

To study the comparison of working two different banks (PNB, a public sector scheduled bank and ICICI, a private sector bank) regarding providing the facility of Housing Loan, few important questions were asked from consumers of both banks and the following are the conclusions of Comparative working PNB and ICICI with regard to sanction of Housing loan: -

1. ICICI Bank takes less processing time in sanction of Loan in comparison to PNB.
2. PNB provides more loans for the purchase of House where as ICICI provides more loans for the construction of House.
3. ICICI makes sincere effort for the Home Loan Safety Insurance in comparison to PNB.
4. The percentage of cases of Technical Valuation of property before the sanction of Housing loan is high in case of ICICI in comparison to PNB.
5. ICICI has sanctioned more loans without witness in comparison to PNB.
6. In considering the enhancement of eligibility for the sanction of Housing loan PNB prefers to check the securities like bank FD, LIC etc and the income of spouse; where as in case of ICICI it also considers finance income of the person in addition.
7. As far as facility of providing free of cost personal life insurance is concerned, ICICI is providing it to more number of consumers instead of PNB.

So, ICICI, the private bank is working more efficiently in comparison to PNB, a public sector scheduled Bank.

**Suggestions**

After the analysis of the detail input information so collected through well designed questionnaire the present study would like to suggest some tips to make the research more valuable. These are given below:

1) The services of private sector banks are better in comparison of public sector banks in India. Therefore the number of branches in urban as well as rural area of the country should be increased so that the customer will meet their demands as convenient to him/her.

2) In the customer oriented market the rate of interest to be charged on home loans by the private sector banks is still lower as compared to the rates of public sector banks. Thus the rates of public sector must be reduced for the equalization with private sector banks in the market of finance.

3) There is a need for customer satisfactions to capture the market. The private agency devoted for efforts to make the customer up to date. For the satisfaction of lovely customer the private sector banks are giving extra facilities such as free personal accidental insurance, home loan at 0 per cent processing fee occasionally for increasing the market shares whereas public sector banks far away from such type of facilities to the customer. Therefore the policy makers are required to make such provision so that more home loan customers would be attracted.

4) Both types of banks are required to give more home loan facilities to lower income group (LIG) of the society instead of upper income group.

5) In the modern market philosophy, the customer wants to avail the facilities of home loan speedily so that they make the home in specified period. In India all the public sector banks are desired to make the provision so easily which as convenient to the prospective customer.

6) The private sector banks do not require the security documents at the time of sanction and disbursement of home loan whereas the public sector banks mandatory this documents from the loanee before the disbursement the loan amount. This is a major hurdle in the way of home finance from the public sector banks. Therefore there should be another options in the hand of home loan customers.

7) Both the banks are sanction the home loan in approved areas of the town for purchasing the desired land for home but banks will not release the balance of loan for construction of home unless the approved map would be disclose before the banking authority. The balance amount should be disbursed either the areas unapproved but proposed residence area in the limit of municipal committee.

8) The private sector banks are required to make polite behaviour regarding the recovery of housing loan amount from the customer.

9) The public sector banks are also required to raise the timing limit for construction of home that should be five years instead of two years.

10) There is internet banking in current era of technology. To attract new the customers the information about the change in rate of interest, new schemes for home loans, Earnest amount for purchase of plots in urban areas, processing fee structure, details of floating and fixed rate of interest should be conveyed immediately through internet banking system.

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# CHALLENGES BEFORE INDIAN FINANCIAL SYSTEM IN INFORMATION AGE

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**Abstract**

The Reforms in the financial sector have changed the shape of Indian Banking industry into a much regulated and organized industry. The market developments with Liberalization & Globalization have resulted in transformation of banks in a much higher pace with technology. The Indian Financial System is a group of various players like PSU's, Private Banks, Regional Rural Banks, Foreign Banks, Cooperative Banks and many more. Today the customers need not to stand in long queues for making transactions in the commercial banks in India. Now with the proliferation of Internet Banking transactions have become much more convenient. Though, the banking sector in India has adjusted quite fairly with the emerging environment and is trying to extend its reach and diversity, yet greater challenges lie ahead. Banks will have to prepare themselves for the greater challenges lying ahead in future. Some of these are given below:

1. To minimize the fiscal deficit, to reduce the risk of macroeconomic instability and to enhance the availability of finance to the private sector;
2. In order to improve banks' credit and risk management; to improve the legal, regulatory and supervisory frameworks,
3. To improve systems for dealing with weak banks, and develop the capital market.
5. To develop pensions and insurance to increase finance for long term investments and infrastructure purpose.
6. To improve the financial services for the welfare of customers and meet the challenge of globalization of financial services; and
7. To manage links to external capital markets; and possible approaches to meeting these challenges.
8. Going forward, a move towards higher capital requirements and the need for meaningful financial inclusion are the primary challenges before banks.
9. The convergence to International Financial Reporting Standards (IFRS) is also likely to pose demands on banks' resources.
10. The slippage in asset quality needs to be contained and the risks posed by global factors need to be addressed carefully.

11. The exposure to the international competition and the BASEL III norms, the banks will have to gear up for the stringent Capital Adequacy Norms.

The present study focuses on the changes and shifts expected in the Indian Banking industry, the opportunities and challenges ahead and the role of technological innovation which could be the change agent in the coming years.

**Introduction**

India is one of the five countries classified as big emerging market economies apart from China, Indonesia, Brazil and Russia. A study by World Bank predicts that by 2020 the share of these five biggest emerging markets' in the world output will double to 16.1% from 7.8% in 1992. This surge in growth is supported by an expanding middle-class population, with an increase in public and private investment. India has a strong middle class of 250-300 million expected to double in the next two decades.

In India, the financial sector has largely influenced the growth of the financial markets and banking. The global banking landscape is changing rapidly, and our domestic banking system needs to gear up in order to keep pace with its global counterparts. To sustain itself amid the fierce competition, the Indian banking industry needs to undergo transformation.

**Objectives Of The Study**

1) To understand the fiscal deficits of India.
2) To study the various components of fiscal deficits.
3) To study the impact of deficit financing on Indian economy.
4) To study the various challenges of our financial sector and their solutions.

**Research Methodology**

The present study is a descriptive study. The researcher has used the secondary data in order to reach at necessary conclusions. The secondary data has been collected from the R.B.I. annual reports, various issues of economic times, articles and research papers of Indianan journal of commerce and accounting and published and unpublished reports/journals and books etc.

Before taking other individual issues, we would like to highlight a very basic and core issue for the Indian financial system and that is the greatest challenge. i.e.

Fiscal Deficit, it is the “difference between the Government's total expenditure and its total receipts”. Borrowings are not considered while calculating the total receipts. This fiscal deficit can be arranged by borrowing from the Reserve Bank of India (which is also called deficit financing or money creation) and market borrowing (from the money market, which is mainly from banks). Fiscal deficit gives the signal to the government about the total borrowing requirements from all sources.

Fiscal Deficits has two basic components. those are:

a. Revenue deficit: It is an economic phenomenon, where the net amount received fails to meet the predicted net amount to be received.

b. Capital expenditure: It is the fund used by an establishment to produce physical assets like property, equipments or industrial buildings. Capital

expenditure is made by the establishment to consistently maintain the operational activities.

Once, in a meeting, then our Finance Minister; Mr. Pranab Mukherjee, now president of India, said in regards with this highly debatable issue of Deficit Financing.He said that," the revenues from 3G and Broadband Wireless Access (BWA) spectrum auction (that garnered Rs 1.08 lakh crore) has helped government to reduce the fiscal deficit for the current fiscal, from 5.5 per cent to 5.1 per cent and he also expected that the Deficit Financing for the future years would come down gradually and gave the following figures:

| Year | Fiscal Deficit (% of GDP) |
|---|---|
| 2010-11 | 5.1 |
| 2011-12 | 4.6 |
| 2012-13 | 4.1 |
| 2013-14 | 3.5 |

Deficit financing can be regarded as a necessary evil which has to be tolerated, at least in the developing economies; only to the extent it can promote capital formation and economic development. This extent of tolerance is called the "*safe limit of deficit financing*". This safe limit shows the amount of deficit financing that the economy can absorb and beyond which '*inflationary forces*' may be set in motion. Though it is not possible to quantify it, yet it is desirable to identify the factors that affect it. Factors that affect deficit financing can be put under two categories:

*Factors related to demand for money*

*Factor related to supply of money*

**Impact of Deficit Financing on Indian Economy**

1. Deficit financing gives rise to credit creation by commercial banks as their liquidity is increased by the creation of new money.
2. Deficit Financing leads to Inflation as supply of money increases in the economy.
3. Properly controlled and efficiently managed programme of deficit financing may help the process of economic development.
4. Deficit Financing makes interest rates higher, as for Deficit Financing government borrows from the money market. Large amount of borrowings by government results in higher interest rates.
5. Deficit Financing results in an increase in production, employment & income, that lifts up the economy in short run

**Present Situation And Fiscal Deficit**

India's fiscal deficit has risen sharply in recent years on loan waivers for poor farmers, subsidies and stimulus packages to boost the economy. The present fiscal deficit number (forecast) is big and worrisome. While market participants were expecting fiscal deficit in the range of 6-6.5 per cent of the gross domestic product

(GDP), the finance minister put the number at 6.8 per cent of GDP. For the year ending March, 2010 Fiscal deficit was about 6.8% of the GDP as compared to 6.2% of the preeding year. Besides that, adding the total state deficits (which is 3.5% of GDP) to the fiscal deficit will lead to a total of around 10% which is very high, creating a huge debt burden for the next generation of the country. This will put further pressure on limited resources available in the market.

Bankers predict pressure on interest rates saying huge borrowings will suck out liquidity resulting in reduced lending. The large government borrowing is expected to put pressure on interest rates.

As government borrowings go up, it will crowd out private borrowing and push up interest rates. But how the monetary policy deals with the situation is the other aspect. It depends on how the government and the RBI manage the borrowing plan. It can be managed through measures such the market stabilization scheme, open market operations and timing the borrowings.

As I told that deficit financing, is also helpful in financing for economic development in various situations. Deficit financing in a developing country becomes inflationary and it has varied effects on economic development which have been highlighted in the unit. We have also examined the impact of deficit financing on price behaviour in India during the plan period. It shows that, apart from other factors, there has been a close relationship between rate of growth of money supply resulting from deficit financing and rate of increase in prices. But to a certain reasonable extent, deficit financing has proved to be conducive to economic development, especially in countries with acute shortage of capital. The advantages of deficit financing in this context have been dealt with in the unit. As we have discussed that it is a necessary evil which can be tolerated only to the extent it promotes capital formation and economic development. This extent of tolerance is known as safe limit of deficit financing. To minimise the inflationary effects of deficit financing during the process of development, certain measures have to be taken like proper channelising of investment in areas with low capital output ratio, adoption of policies of physical control like rationing, import of only necessary capital equipment etc.

**Entry Of Banking into The Area of Un-banked Population**

Statistics indicate that in emerging markets of other developed countries, banking reaches only about 37%of the population, compared to over 50% penetration for mobile phones. For every 10,000 people, these countries have one bank branch and one ATM, but 5,100 mobile phones. In India, there exists a large un-banked population with only around 40% having access to banking services. This clearly reflects that increasing penetration in un-banked areas is a key challenge for the banking industry and currently, all efforts are being concentrated in this direction.

**Tackling The NPA Problem**

Asset-quality of banks has come under increasing pressure with rising NPAs and Restructured loans. The Gross NPA ratio for the banking system, which was 2.4% in March 2011, increased to 3.6 per cent by September 2012. Its amount comes more than Rs. 52,000 crore and it is clearly recognised that the drain on the system of such a large burden needs early resolution. It is expected that the one-time settlements for NPAs below Rs. 10 crore will be non-discretionary and uniform and a number of banks have focussed their energies on a one point agenda of recovery of loans. It is recognised that recovery of NPAs is not an easy task and the sheer attrition of time results in an accretion to NPAs as loans are down-graded on the asset classification ladder. There is a general perception, reinforced by the global rating agencies, that actual NPAs are higher than indicated by the numbers as there is atleast anecdotal evidence of ever-greening and stipulation of weaker norms in India. Legal infirmities are by far the most formidable impediments to a strengthened banking system. The Andhyarujina Committee has recommended the creation of a new law granting statutory power of possession and sale of security directly to banks and FIs and creation of a new securitisation act which would confer legal sanctity to transfer of future receivables. Action on this front would be the most important measure in the second generation reforms. Going forward, the banking system will continue to face a challenging environment given that its fortunes are closely linked with those of the economy – domestic and global.

**Financial Inclusion**

Without being inclusive, financial and economic stability cannot be sustainable. Financial inclusion is about credible access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner from mainstream institutional players. More recently, there has been a strategic shift in sustainable financial inclusion to the adoption of market oriented approach viewing financial inclusion as a viable business proposition. It has been made possible by the availability of Information and Communication Technology required by the formal financial sector for penetrating widespread unbanked areas in a cost effective way and the realization that the "Poor is eminently Bankable". Financial inclusion is related to financial stability also through the key of financial education and literacy. In my opinion, financial literacy is an integral part of financial inclusion of the public or users of financial products/services.

However, there are some key challenges that are being encountered in the drive to achieve financial inclusion, more particularly the following:

Coverage - The huge population of India makes it cumbersome for any program to be completely inclusive. Especially in the case of migrant labour, money flows freely through unorganized channels, making it difficult to

keep an account.

Infrastructure – Infrastructure development in India has not kept pace with the economic growth in the country and lags behind to a great extent. It is essential to develop road, rail, digital connectivity and adequate power and infrastructure facilities which are important prerequisites for operation of a banking outlet.

Financial Products – Simplicity and flexibility of products are two basic constituents of financial products. These products should suit the requirements of the masses and be made available at affordable costs.

Technology – Integrating technology in the banking system is essential to move a step closer to inclusive growth. The technology solutions offered, should be standardised, and cost effective. There is a high transaction cost associated with providing banking services in the rural areas. Technology, if used appropriately can help in reducing the cost of transactions by a considerable extent.

**Regulatory Intervention As Part Of Financial Inclusion, is Required To Foster Inclusive Growth**

To make financial inclusion a reality, a strong regulatory framework is necessary to bring in financial stability, which can act as an enabler for this initiative. To aid financial intermediaries in delivering their services effectively to the low income group segment of the population, technology needs to be leveraged with economies of scale. Regulation of these entities succeeds in instilling confidence in lenders and investors and in bringing in more organized funding.

**Infrastructure Financing By Banks**

Economic development thrives on support from development of infrastructure. Economic growth in India has been moderately high at 7.4% in 2009, and 8.75% in 2010 and higher is expected in future. These figures indicate that for this growth to be sustainable, the demand for infrastructure needs to be adequately fulfilled.

Emerging economies attract huge capital flows, and thereby provide abundant opportunity to finance infrastructure projects in these countries, provided these are proved commercially viable. Currently, India spends only 6% of its GDP on provision of infrastructure, as compared to China which spends as much as 20% on infrastructure development.

**Indian Capital Markets**

It is a fertile ground for growth of the financial sector. They are an important constituent of the financial system given their role in the financial intermediation process and capital formation of the country. The importance of capital markets cannot be under-emphasised for a developing economy like India which needs

significant amount of capital for development of strong infrastructure.

Indian households have traditionally preferred safety of bank deposits and government saving schemes and much less than 10% of the their investments in financial assets is in shares, debentures and mutual funds, which is very low as compared to some of the developed economies. Given the quantum of savings, the need to mobilise savings into productive channels and the opportunity for financial intermediation, the next decade will be an opportunity of a lifetime for Indian capital markets players.

**Debt Market Improvement**

In developed economies, bond markets tend to be bigger in size than the equity market. A well-developed capital market consists of both the equity market and the bond market. In India, equity markets are more popular and far developed than the debt markets.

The Indian debt market is composed of government bonds and corporate bonds. However, the government bonds are predominant (constituting 92% of the volume) and they form the liquid component of the bond market. An active corporate bond market is essential for India Inc. The corporate bond market is still at the nascent stage. And there is a good opportunity.

Islamic Bonds and other Shariah compliant investment products are another debt instrument that has gained popularity in the worlds markets since 2007 is the Islamic Bonds. Islamic Bonds are assets backed interest free bonds. Islamic finance does not involve payment of interest and is based on sharing of both profit and loss. In India, the concept of Islamic bonds and other Shariah compliant products is yet to take-off but it certainly has immense potential.

**Development Of Commodity Markets**

Commodities are emerging as an important asset class that can help market savvy investors diversify risks. The commodity markets have been growing at a phenomenal pace, as evident from the number of commodity exchanges set-up and proposed to be set-up (pending approval from the Regulator). In addition to augmenting capital markets, commodity markets have an important role to play in development of a country's agricultural sector and related eco-systems.

Commodity markets have traditionally been quite volatile and hence, it is important to allow institutional investors to invest in commodity markets as they bring significant trading experience.

**Availability of Capital**

Banks will be facing the challenge of growing their business due to capital constraints. India's financial system is better at capital allocation than most of the emerging market players. It has some high performing banks, very low stock of gross non-performing loans of about 2.5% and deep and liquid equity markets that

efficiently discover price in stocks of globally competitive companies in BPO, IT, R&D, pharmaceuticals, automobiles, telecom and hospitality space.

Banks are already suffering from inadequacy of capital as the return on such capital does not encourage new investors. Era of cheap capital is over and investors are also wary of the volatility of returns. Newer instruments and techniques would be required to attract investors. While creation of enabling conditions for capital flow to the sector would continue to remain on the top of the reform agenda, banks would need to grow their balance sheets by raising capital from the markets rather than count on government.

**Epilogue**

In summing up, we would like to reiterate that though each one of the key challenges facing the Indian financial system begins with the banking system, it does not and should not stop at the banking system. Banks have to look beyond the way banking is traditionally defined in a narrow fashion; they need to look towards the vulnerable and other excluded sections of the population as bankable. Stakeholders other than banking too need to involve themselves in the process of expanding the outreach of the financial services, and thus they will be the partners with banks in the process of economic growth. That is the key challenge of this sector.

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# Effectiveness of Quality Improvement Programmes

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Global competition and productivity enhancing technology have proven powerful inducements for reducing costs and increasing value for customers in many industries and quality improvement has been an effective tool in this evolution. Meanwhile healthcare has remained somewhat remote from market forces, fearing commoditization of this intensely personalized discipline if industrial strength management tools were applied. The significance of this research project rests on the use of QI as a management strategy in healthcare that can address cost problems while improving quality. Industry observers and healthcare mangers assumed as they embraced QI and implemented quality improvement programs, quality would improve and cost would drop, as has proven to be the case in many other industries before healthcare. While substantial work has demonstrated that effective QI programs improve productivity in healthcare, and a few studies have formed links between QI and financial performance, the healthcare research literature is largely silent regarding the relationship between QI and cost Over-reliance on visible results like profit margin over-shadows the hidden value of happy customers and repeat business excessive medical costs, inflicted by an inefficient, poorly managed healthcare delivery system, must be enriched. Indeed, this proved to be a prescient observation, as part of its response, the industry has seen broad adoption and subsequent maturation of quality improvement programmes over the past decade, and this paper examines the effectiveness of quality improvement as a cost management tool in healthcare.

## Introduction

The relevance of this paper rests on the use of quality improvement programmes as a management strategy in healthcare that can address cost problems while improving quality. Industry observers and healthcare mangers assumed that as they try to embrace quality improvement programme and implemented quality improvement programs, quality would improve and cost would drop, as has proven to be the case in many other industries before healthcare. While a notable latecomer to QI, the healthcare industry has a long history of efforts to measure and improve quality. Florence Nightingale may have been the first to focus on quality(Bull, 1997). In her notes from the Crimean War she records mortality rates of various surgical procedures and relates cleanliness and sanitation to medical outcomes. Codman's work at Massachusetts General Hospital in the early twentieth century introduced the modern day focus on quality in healthcare (White, 1999). His groundbreaking work applied statistical techniques to the relationship between medical interventions and outcomes, and resulted in the first medical standards published by the American College of Surgeons in nineteen-twenty (Bull, 1997). Managers collect managerial accounting information to perform management functions: formulating strategy, planning, decision making, and conducting and controlling operational activities. Accounting information plays a decision-facilitating role in business strategies and decision making. For instance, Foster and Gupta (1994) interview marketing managers and document that accounting information influences managers' marketing business decisions, such as new product development and marketing budgeting decisions. Cost information is one of the most important types of management accounting

information. In this dissertation, I address an issue of cost information in a decision-facilitating role and examine how firms use cost information in pricing decisions.

Although accounting information serves as a decision-facilitating role, opportunistic reporting is documented in accounting literature. Managers collect and formulate accounting information. Managers might manipulate information or provide biased estimation, to serve their interests when reported accounting information such as budget and cost information has an influence on firms' economic benefit. For example, Blanchard, Chow, and Noreen (1986) examine hospitals managers' budgeting behavior under rate-setting regulation and find budgeted volumes and costs are reported with biases since the opportunistic reporting leads to an increase in revenues. In this dissertation, I choose firms which encounter both cost-based and fixed-rate reimbursement systems as my sample. Firms under a cost-based reimbursement system have incentives to overstate cost reports in order to increase revenues.

More recently quality in healthcare has been a primary concern of the National Science Foundation's Institute of Medicine (IOM), the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), and the Health Care Financing Administration (HCFA) which control's Medicare's purse strings, each of which has published recent, scathing reviews of the industry's quality problems (White, 1999). Although quality in healthcare has been mandated for decades, the financial impact of these decisions has rarely been explored, and reimbursement for QI activities has ranged from limited to non-existent. While substantial work has demonstrated that effective quality improvement programs improve productivity in healthcare, and a few studies have formed links between quality improvement and financial performance, the healthcare research literature is largely silent regarding the relationship between quality improvement and cost (Ward & Spragens, 2006). Quality Improvement (QI), Total Quality Management (TQM), Six Sigma, and several other variations on the quality management theme, offer solutions to both quality and cost problems (Sashkin & Kiser, 1993; Deming, 1985). Extensive research and documented experience in a broad range of industries demonstrates that mature QI initiatives can simultaneously improve quality and reduce cost (Easton & Jarrell, 1998; Barker, 1999; and Singhal, 2002). As leaders in various industries have adopted QI, other companies have found it necessary to adopt these strategies to remain competitive. Meanwhile healthcare has remained somewhat immune from market forces, fearing commoditization of this intensely personalized discipline if industrial strength management tools were applied. W. Edwards Deming, a seminal thinker in the quality movement, described a chain reaction as a result of improving quality (Deming, 1985). He argued that by increasing quality, cost would decrease because products and services would be delivered right the first time, eliminating scrap and the need for rework. Lower costs would drive improved financial performance, which

would guarantee jobs for employees, in turn creating demand for products and services and thereby sustaining future growth. As the quality movement spread, practices were codified into a formal discipline, and as corporate experience with QI expanded, Deming discovered that even greater cost benefits could be realized as a result of focusing corporate strategy on quality.

**Review of literature**

Different studies have been conducted in the fields alia total quality management, quality improvement and six sigma which are associated with cost and quality. Some of the study are reviewed and presented below:

Seraph, Benson, and Schroeder (1989) are generally identified as the first to develop a method for evaluating QI implementations and to empirically test their survey instrument. This team developed their initial criteria by reviewing the work of recognized quality leaders, including Shewhart and Deming. Through study of this literature they grouped the key elements discussed into categories and identified eight critical components of managerial planning and action necessary to practice effective quality management. Their factors include: the role of top management leadership, the role of the quality department, training, product and service design, supplier quality management, process management, quality data and reporting, and employee relations. Seraph, et al (Ibid.) developed a summary using from six to thirteen measurement items for each component and field tested their instrument using data collected from one hundred and sixty-two general managers and quality managers from twenty large companies in the Minneapolis area lauded as the first attempt to operationalize QI constructs, Seraph's team was criticized for omitting two important factors: customer focus and statistical process control.

Flynn, Schroeder, and Sakakibara (1994) continued the work of Seraph, et al (1989), but focused instead on the practitioner and empirical literature. They focused primarily on management practices and de-emphasized performance or output measures. In addition to drawing on the substantive literature available they subjected their survey to review by a panel of acknowledged experts. Their instrument was evaluated at the plant level and targeted lower level employees, including production managers, supervisors and direct labor. They identified seven key dimensions of quality management: top management support, quality information, process management, product design, workforce management, supplier involvement, and customer involvement. Each construct was measured with up to fourteen scales and the survey was administered to seven hundred and sixteen respondents at forty-two different manufacturing sites. While this instrument improved reliability and validity measures of the previous work, the authors acknowledged the need to winnow the number of scales and further refine the instrument.

Anderson, Runtusanatham and Deveraj (1995), drew its theoretical framework

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

from the Deming Management Method, and employed a three round Delphi study to derive seven essential elements. They included: visionary leadership, internal and external cooperation, learning, process management, continuous improvement, employee fulfillment, and customer satisfaction. The sample drew from forty-one manufacturing plants with several respondents from each site. Plant scores were derived by averaging the responses from each individual.

Ahire, Golhar, and Waller (1996) found weaknesses in each of the preceding models, which they addressed after a thorough review of the literature. Their twelve constructs included: top management commitment, customer focus, supplier quality performance and management, design quality management, benchmarking, statistical process control, internal information usage, employee empowerment, employee involvement, employee training, product quality, and supplier performance.

Grandzol and Gershon (1997) examined two hundred and eighty-two companies in the aerospace industry to understand the QI-performance link. They too built an industry specific survey to evaluate QI, and used return on investment and cost among other metrics, to measure performance. Their QI construct was highly associated with operational performance, which they found to be positively related to financial performance as well.

Prizzini (2002) evaluated the relationship between financial performance and QI in one hundred and twenty-nine hospitals associated with a national audit firm. She measured QI using a simplified version of Shortell's questionnaire and rated financial performance by tracking return on equity and growth rates. In addition she measured duration of QI programmes in terms of years of experience. Her research identified a strong relationship between hospitals using sophisticated QI programs and financial performance at the same institutions. However, she did not find that longer duration was correlated with continuing improvement, raising questions about causality. She suggests that perhaps sophisticated management teams are more likely to operate with efficiency and to adopt QI, but it is unclear that the latter causes the prior.

Raju and Lionel (2002) took a marketing approach to the question. In their study of one hundred and seventy-five mid-western hospitals they attempted to tie quality improvement initiatives to hospital marketing campaigns. They built multivariate equations to identify factors to explain the relationship between QI and financial performance. They concluded that hospitals can improve financial performance when they pay careful attention to both quality improvement and marketing programs that capitalize on their results, which they characterized as internal quality (QI) and external quality.

Hartman and Li (2003) took a novel approach to studying the link between QI and organizational performance by comparing healthcare to non-healthcare organizations. They interviewed one hundred and twenty-two healthcare managers and like number of managers from non-healthcare industries to

evaluate the maturity of QI implementations and to gather performance data. Though recommending further research, they measured similar links across both populations, between QI program maturity and organizational performance. Addressing reports that healthcare was lagging behind non-healthcare industries in gaining support for QI programs, their analysis of variations within the two populations did not support a difference between the two.

Pena and Ndiaye (2004) raised the same type of questions as well, asking if cost control using QI is myth or reality in healthcare. Specifically, they ask if hospital costs go down when quality goes up. They note that during the spread of QI throughout healthcare, cost has been rising. While they provide no evidence to link the two, they argue that quality improvement must be affordable, and cost reduction through use of QI should be achievable, concluding that quality improvement at any cost is no longer acceptable.

**Objectives of the Study**

The objective of the study is to find out the relationship between cost and the maturation of quality improvement programmes in the hospital settings. It also study the interactions between maturity of quality programmes and time with respect to predicting cost.

**Analysis**

While analyzing the data as the study was based on a sample of thirty respondents found that there is as much as fifty percent of the sample hospitals have potential to improve quality and reduce cost. Statistical analysis of the data relating Medicare cost per discharge to QI maturity showed no statistically significant relationship between the two variables. However, statistical analysis of the data relating the operating metric length of stay to quality improvement maturity, did suggest a significant relationship between the two variables. The regression analysis examining the impact of a maturing QI program over time on the inflation adjusted trend in Medicare cost per day suggests no relationship for the twenty six respondents, but a significant relationship among the four respondents in the sample. Maturity of QI program and time for the program to evolve did not show any predictive capability for measuring Medicare cost per discharge. Recouping from the pressure to control costs and improve quality, healthcare has vigorously embraced QI and implementation was sought gradually in the eighty percent of sample hospitals. Extensive research from other industries supported the expectation that mature QI programs could simultaneously improve quality and reduce cost and this study investigated that relationship in the hospital setting. The evidence collected in this study clearly validates theory predicting a connection between the operating length of stay and QI maturity, but does not support a statistically significant relationship between cost per discharge and QI

maturity. Introduction of a duration variable, cost per discharge over time, for hospitals with the most mature QI programs in the sample suggested a modest impact of QI over time on cost. If costly mistakes such as ventilator induced pneumonia, wound site infections, pharmaceutical errors, etc. can be avoided, cost per discharge can drop down. Further, research in other industries resoundingly concludes that mature QI programs can lower cost. Why hasn't that outcome been replicated in healthcare? Further research must focus on this important question. Limited inquiry suggests a possible disconnect between programmatic maturity and institutional cultural transformation in healthcare (Batalden & Davidoff, 2007). The analysis reveals that lack of competition may explain the failure to control cost in the healthcare industry. A third possible opportunity for future research is implied by the surprisingly wide range of cost per discharge data observed among the sample hospitals. The very high fixed costs of healthcare may drive this outcome. As a result, like other high fixed cost industries such as steel, autos, airlines, healthcare may need to undergo convulsive change before weaning itself from volume dependent strategies. While they applaud healthcare's extensive efforts to implement QI, they argue that QI efforts are too fractured in healthcare. Responsibility rests with the QI manager or the change management team, but they continue, institutional transformation will only occur when QI becomes an intrinsic part of everyone's job, continuously, throughout the system. The study maintained that successful QI implementation requires that everyone embrace at least two jobs when they report to the hospital each day: their assigned roles, and efforts to improve work. Future research might attempt to establish institution-wide, cultural change as a requisite for impacting cost in healthcare. Porter and Tiesberg (2004) consider the role of misaligned competition, and the resulting distortions that plague the industry. They argue that competition in healthcare has become a zero sum proposition, where the system erodes value instead of increasing it. They point to several examples of this zero sum competition, including: cost shifting from payer to patient, health plan to hospital, and hospital to clinician; a constant pursuit of greater bargaining power evidenced by consolidation of insurers, hospitals, and clinical practices to achieve more negotiating leverage; and attempts to restrict services such as health plan limitations on procedures or physician choice rather than the expanding variation that necessarily results from unfettered competition. They argue that competition must shift from vying for leverage among health plans and care systems to competition based on diagnosis, treatment, and prevention of disease. At that level, value is created and significant changes in cost and quality would drive dramatic improvements, reduce errors, and trigger innovation to win customers. If hospitals and clinical practices could compete based on access, range of services, and convenience, and/or customer satisfaction, results would track with similar models in other industries. Future research might validate this model by tracking the success of

systems such as Apollo Group, which have embraced the competitive model(Porter & Tiesberg, 2006).Expanding on the third stream of logic, hospitals exhibit many characteristics of high fixed cost industries that have to contend with cost issues. The problem involves matching capacity to demand, with two general solutions: utilization in the short term, and lean management techniques in the long run. The auto and airline industries provide useful examples. Domestic car companies sought to build highly automated, extremely productive plants to drive down unit cost. Large airlines sought to drive utilization with an extensive feeder system and maximum coverage using a hub and spoke configuration. These volume dependent strategies proved disastrous for both, and recent changes see movement towards smaller systems and flexible workforces to tie output to customer need. Successful hospitals continue to expand services, build new patient towers, and bid aggressively for contracts rather than focusing internally on the cost benefits of QI and lean management techniques.

**Conclusion**

To successfully manage cost, hospitals may need to outgrow volume dependent utilization strategies and embrace lean management techniques. Future research should evaluate the relationship between hospital utilization and cost, as well as such initiatives as outpatient treatment, disease management, drug therapies, and use of visiting nursing capabilities to allow early discharge or even to avoid hospitalization, in order to measure the impact of these strategies might have on cost. As Deming declared that transformative change would only occur when problems reach a crisis stage. In healthcare that point may be delayed until the industry and its customers (patients) believe that cost management is a critical, societal goal.

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# भारत में प्रत्यक्ष विदेशी निवेश

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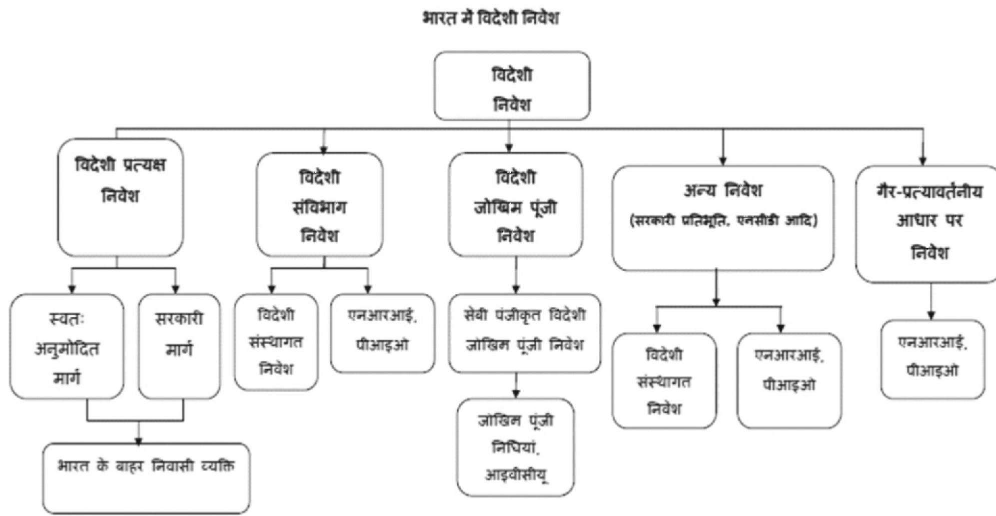
अविकसित तथा विकासशील देशों के लिए प्रत्यक्ष विदेशी निवेश आवश्यक ही नहीं बल्कि अनिवार्य है। इसमें कोई सन्देह नहीं है कि विश्व की कोई भी अर्थव्यवस्था धन के अभाव में विकास नहीं कर सकती। अतः विश्व की प्रत्येक अर्थव्यवस्था का मुख्य उद्धेश्य अपनी आय के स्तर को बढ़ाना तथा संतुलित आर्थिक विकास का लक्ष्य प्राप्त करना है। इन उद्धेश्यों की प्राप्ति के लिए प्रत्येक अर्थव्यवस्था को तीव्र औद्योगिकरण, तकनीकी ज्ञान, संसाधनों तथा क्षमताओं के अधिकतम उपयोग की आवश्यकता होती है जो कि इन अर्थव्यवस्थाओं के घरेलू संसाधनों के द्वारा संभव नहीं है। इस बात को लेकर लगभग सर्वसम्मति है कि आर्थिक विकास की गति तेज करने के लिए विदेशी सहायता आवश्यक ही नहीं ब्लकि अनिवार्य सी हो गई है। यदि हम विश्व के इतिहास पर नजर डालें तो पाएगें कि विश्व के वर्तमान समय के विकसित देश विदेशी पूंजी की सहायता से ही विकसित हुए हैं। उदाहरण के तौर पर इग्लैंड ने 17 वीं एवं 18 वीं शताब्दी में हालैंड से उधार लिया, सोवियत रूस ने अमेरिका से उधार लिया तथा चीन ने सोवियत रूस से वित्तीय तथा तकनीकी सहायता ली।




आज के समय में विदेशी सहायता का सबसे प्रभावी व प्रचलित रूप प्रत्यक्ष विदेशी निवेश है। इसमें कोई सन्देह नहीं है कि भारत ने विज्ञान, तकनीक, दूरसंचार तथा औद्योगिकरण के क्षेत्रा में विशेष प्रगति की है परन्तु कई क्षेत्रा ऐसे भी हैं जिनमें भारत आज भी पिछड़ा हुआ है। एक विद्वाव के अनुसार भारत के पिछड़ेपन को दूर करने के लिए तथा अर्थव्यवस्था के संतुलित आर्थिक विकास के लिए प्रत्यक्ष विदेशी निवेश एकमात्रा उपाय है।

भारत में प्रत्यक्ष विदेशी निवेश नीति का आरम्भ 1968 से माना जाता है, क्योंकि दिसम्बर 1968 में विदेशी पूंजी तथा सहयोग से संबधित मामलों के लिए सरकार ने विदेशी बोर्ड का गठन किया तथा उद्योगों को तीन विस्तृत श्रेणियों में विभाजित किया जो निम्नलिखित हैं –

1. वे उद्योग जिनमें विदेशी निवेश स्वीकृत होगा।
2. वे उद्योग जिनमें केवल तकनीकी सहयोग स्वीकृत होगा।
3. वे उद्योग जिनमें न तो विदेशी निवेश ओर न ही तकनीकी सहयोग स्वीकृत होगा।

1968 के बाद 1972 में सरकार ने प्रत्यक्ष विदेशी निवेश की दिशा में कई सकारात्मक कदम उठाए जिनमें से 100 प्रतिशत निर्यात प्रधान पूर्ण स्वामित्व वाली सहायक ईकाइयां स्थापित करने का निर्णय सबसे महत्वपूर्ण था। इसके बाद प्रत्यक्ष विदेशी निवेश के क्षेत्रा में जनता पार्टी ने 1977 में दो महत्वपूर्ण

दिशा–निर्देश जारी किए –

1. उन क्षेत्रों में विदेशी सहयोग की स्वीकृति नहीं होगी जहां पर्याप्त भारतीय निपुणता तथा पूंजी उपलब्ध है जब कभी उच्च प्राथमिकता प्राप्त क्षेत्रों में विदेशी सहयोग की आवश्यकता महसूस हो तो तकनीकी ज्ञान, तकनीकी निपुणता तथा मशीनरी के पूर्व क्रय पर बल दिया जाना चाहिए।

2. उपभोक्ता वस्तु उद्योग के क्षेत्रा में फेरा के प्रावधानों को कठोरता से लागु किया जाना चाहिए। विदेशी फर्मों को भारतीयता की प्रक्रिया को आगे ले जाने के लिए कहना चाहिए। उनकी उत्पादन क्षमताओं को भी वर्तमान स्तर पर स्थिर कर दिया जाना चाहिए।

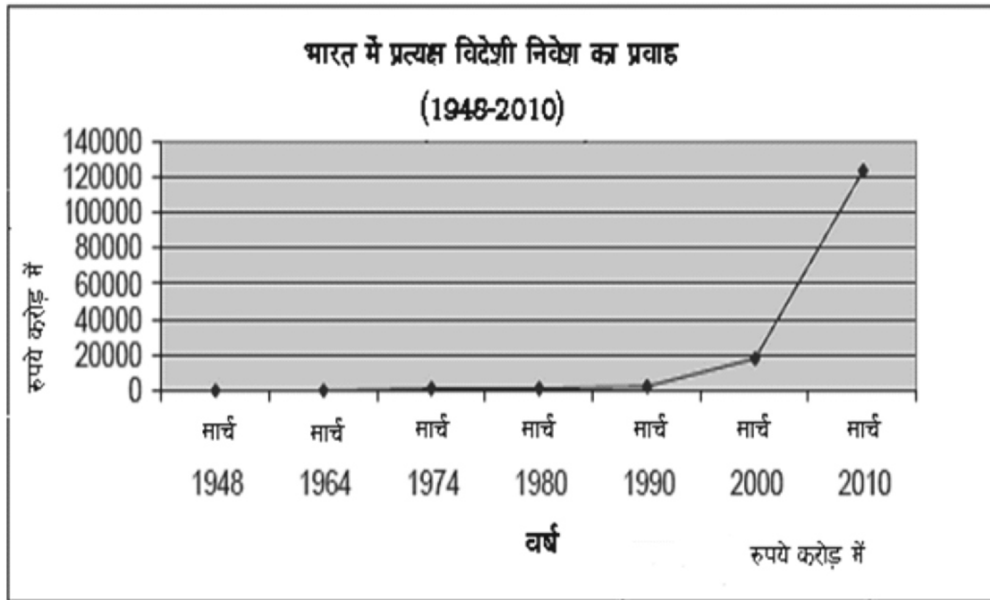
प्रत्यक्ष विदेशी निवेश के सम्बन्ध में 1980 के बाद बहुत से सुधार देखने को मिले जैसे कि प्रत्यक्ष विदेशी निवेश के क्षेत्रा में विभिन्न प्रस्ताव अनुमोदित किए गए जिनकी सख्या 1982 में 590, 1983 में 673 तथा 1984 में बढ़कर 752 हो गई थी।

प्रत्यक्ष विदेशी निवेश के सम्बन्ध में 1991 में कांग्रेस सरकार ने एक नई औद्योगिक नीति की घोषणा की। इस नीति में इस तथ्य को स्वीकार किया गया कि यदि भारत में संतुलित औद्योगिक विकास, आधुनिकिकरण तथा तकनीकी विकास करना है, तो प्रत्यक्ष विदेशी निवेश आवश्यक ही नहीं ब्लकि अनिवार्य है। इस नीति में ही उच्च प्राथमिकता प्राप्त उद्योगों में 51 प्रतिशत तक के सीधे विदेशी निवेश की अनुमति प्रदान की गई थी।

1994–95 की विदेश नीति में अनिवासी भारतीय, विदेशी निगम संस्थाओं तथा विदेशी संस्थागत निवेशकों को क्रय–किराया, पटट्‌ व्यापार तथा अन्य सेवाओं सहित सभी क्रियाओं में निवेश करने की अनुमति प्रदान की गई थी, बशर्ते उनका अंशदान 24 प्रतिशत से अधिक न हो। थोक दवाईयों, उनके अन्तर्वर्ती तथा सूत्रीकरण को स्वतः अनुमोदन के अन्तर्गत लाया गया। वर्तमान योजनाओं तथा अनिवासी भारतीयों को भारत में प्राप्त प्रेरकों की जांच की लिए तथा अनिवासी भारतीय निवेश को बढ़ाने के लिए सिफारिशें देने के लिए एक कार्यशील समूह की स्थापना भी की गई थी।

1994–95 के तुरन्त बाद 1996–97 में विदेशी निवेश के क्षेत्रा में कई महत्वपूर्ण परिवर्तन किए गए थे जो निम्नलिखित हैं –

1997 में सरकार ने पहली बार विशेष दिशा–निर्देशों की घोषणा की जिससे उन क्षेत्रों में प्रत्यक्ष विदेशी निवेश को शीघ्रता से स्वीकृत किया जा सकता था जो स्वतः अनुमोदन के अन्तर्गत नहीं आते थे। 51 प्रतिशत विदेशी पूंजी वाले स्वतः अनुमोदित उद्योगों की सख्या बढ़ाकर 48 कर दी गई। विदेशी निवेश बोर्ड को संशोधित किया गया, ताकि विदेशी निवेश को अधिक पारदर्शी बनाने के लिए नियम तथा कानून बनाएं जा सके। 9 प्राथमिकता वाले क्षेत्रों में 74 प्रतिशत तक विदेशी पूंजी की भागीदारी की स्वीकृति दी गई। इसके अतिरिक्त विदेशी निवेश को प्रोत्साहित करने के लिए एक विदेशी निवेश प्रोत्साहन समिति की स्थापना की गई जो विशेष क्षेत्रों में उद्योगों को स्थापित करने के लिए परियोजनाएं बनाएगी।




स्रोत : कुमार 1995

प्रत्यक्ष विदेशी निवेश के सम्बन्ध में अगस्त, 2001 में नियोजन कमीशन द्वारा प्रत्यक्ष विदेशी निवेश के लिए एक परिचालन समिति का गठन किया गया था। जिसकी मुख्य सिफारिशें इस प्रकार थीः-

प्रत्यक्ष विदेशी निवेश के प्रोत्साहन से सम्बन्धित पहलुओं को सम्मिलित तथा संघटित करने के लिए विदेशी निवेश प्रोत्साहन कानून को लागू किया गया। राज्यों को मूलभूत ढांचे से सम्बन्धित एक विशेष निवेश कानून लागू करने के लिए कहा गया ताकि मूलभूत ढांचे, निवेश में तेजी लाई जा सके तथा मूलभूत ढांचे के उत्पादन में आ रही रूकावटों को दूर किया जा सके। जहां सम्भव हो वहां केन्द्रीय राज्य पंजीकरण तथा अनुमति को शुरूआत में प्रदान करने के लिए विदेशी निवेश प्रोत्साहन बोर्ड को अधिकार देना ताकि कार्यान्वयन प्रक्रिया में तेजी लाई जा सके। प्रशासनिक तथा नीतिगत अनुमति को तीव्र करने के लिए विदेशी निवेश कार्यान्वयन सत्ता को अधिकार प्रदान किए गए। दसवीं योजना में क्षेत्रों तथा सम्बन्धित प्रशासनिक मंत्रालयों/विभागों के संबंध में प्रत्यक्ष विदेशी निवेश के लक्ष्यों को अलग-अलग करना ताकि उत्तरदेयता को बढ़ाया जा सके। क्षेत्रीय प्रत्यक्ष विदेशी निवेश प्रतिबन्धों में कमी करते हुए न्यूनतम करना तथा प्रवेश रुकावटों को समाप्त करना। सभी निमार्ण तथा खनन क्रियाओं (रक्षा क्षेत्रा के अलावा) विज्ञापन, निजी बैंक तथा वास्तविक सम्पदा में प्रतिबन्ध समाप्त करना तथा दूर-संचार, नागरिक उड्डयन, प्रसारण, बीमा तथा पौधा रोपण (चाय के अतिरिक्त) आदि में बढ़ावा। विस्तृत समष्टिगत महत्व से लक्षित क्षेत्रिाय विशेष विचारधारा पर परिवर्तन करने के लिए विद्यमान प्रत्यक्ष विदेशी निवेश रणनीति में फेरबदल करना।

प्रत्यक्ष विदेशी निवेश रणनीति का एक निवेश गन्तव्य के रूप में भारत की शक्ति तथा कमजोरी के प्रकाश में सूचनात्मक पहलु में सुधार करना तथा इसके लिए सूचनात्मक तकनीक तथा आधुनिक विपणन तकनीकें लागु करना। निर्यात प्रधान प्रत्यक्ष विदेशी निवेश के लिए विशेष आर्थिक क्षेत्रा को अन्तर्राष्ट्रीय प्रतिस्पर्धात्मक गन्तव्य के रूप में विकसित करने के लिए चीन के अनुसार नियमों, कानूनों तथा विधियों का सरलीकरण तथा अनाप-शनाप दफतरशाही में कमी करना। अधिक प्रत्यक्ष विदेशी निवेश को आकर्षित करने के लिए विद्युतशक्ति, शहरी मूलभूत ढ़ांचा तथा वास्तविक संपदा में घरेलू नितिगत सुधार तथा अनियंत्राण/लाईसेन्स समाप्ति आदि में तीव्रता लाई जानी चाहिए। परिचालन समिति की रिपोर्ट के आधार पर प्रत्यक्ष विदेशी निवेश की दिशा में कई उदार एवं उन्नतिशील नीतियां अपनाई गई जिससे विदेशी निवेश अन्तर्वाह में वृद्धिहुई जो भारत में प्रत्यक्ष विदेशी निवेश की दिशा में एक बहुत ही सकारात्मक कदम था।

औद्योगिक नीति एवं प्रोत्साहन विभाग ने मई, 2002 में भारत में प्रत्यक्ष विदेशी निवेश की सूचना प्रणाली को अन्तर्राष्ट्रीय सर्वश्रेष्ठ व्यवहारों के अनुरुप बनाने के लिए एक समिति का गठन किया

था जिसने अपनी परिभाषा के अन्दर प्रत्यक्ष विदेशी निवेश के अन्तर्गत पूंजी अन्तर्वाह को तीन श्रेणियों में विभाजित किया – समता पूंजी, पुनर्विनियोजित आय तथा अन्य प्रत्यक्ष पूंजी।

भारत सरकार ने उद्योगों को और अधिक सुविधांए प्रदान करने के लिए तथा प्रतिकूल भुगतान सन्तुलन की स्थिति को सन्तुलित करने के लिए केवल कुछ नकारात्मक सूचियों को छोड़कर सभी प्रकार के प्रत्यक्ष विदेशी निवेश को स्वचालित मार्ग द्वारा स्वीकृति प्रदान की। इन उद्धेश्यों की प्राप्ति के लिए भारत सरकार ने सन् 2005 में प्रत्यक्ष विदेशी निवेश के सम्बन्ध में अपनी आर्थिक नीतियों को थोड़ा ओर लचीला किया तथा कुछ महत्वपूर्ण उदारीकरण किएः–

केवल उन्हीं मामलों में सरकार की पूर्व अनुमति लेना अनिवार्य है, जहां विदेशी निवेशक का उसी क्षेत्रा में कोई विद्यमान संयुक्त उपक्रम या तकनीक हस्तांतरण/व्यापार समझौता हो। अनिवार्य स्पष्टीकरण प्रस्तुत करने का दायित्व विदेशी निवेशक/ तकनीक प्रदानकर्ता तथा भारतीय सांझेदार का बराबर–बराबर होगा जो कि सरकार की इस बात की सन्तुष्टि का प्रमाण भी होगा कि नया प्रस्ताव वर्तमान संयुक्त उपक्रमों एवं तकनीकों/व्यापार चिन्ह सांझेदारों अथवा अन्य धारकों के हितों को जोखिम में डालेगा अथवा नहीं।

यहां तक कि यदि विदेशी निवेशक का उसी क्षेत्रा में सयुंक्त उपक्रम अथवा तकनीक हस्तांतरण/व्यापार चिन्ह समझौता हो, उसे निम्नलिखित मामलों में सरकार की पूर्व अनुमति लेने की आवश्यकता नहीं है–

सेबी द्वारा पंजीकृत जोखिम पूंजी कोष में से निवेश करने के लिए अथवा यदि विद्यमान संयुक्त उपक्रम निवेश दोनों पक्षकारों में से किसी एक का भी 3 प्रतिशत से कम हो अथवा जहां विद्यमान जोखिम/सहयोग अप्रचलित अथवा रुग्ण हो।

प्रत्यक्ष विदेशी निवेश के सम्बन्ध में अभी हाल ही में केन्द्रीय मन्त्रिामंडल ने दूरसंचार ओर रक्षा क्षेत्राों में प्रत्यक्ष विदेशी निवेश की सीमा बढ़ाने तथा मल्टी ब्रांड रिटेल कम्पनियों के लिए निवेश सम्बन्धी शर्तों में छूट देने की मंजूरी दे दी है। इस महत्वपूर्ण सकारात्मक कदम का मुख्य लक्ष्य चालू खाता घाटा द्वारा पैदा हुई चुनौतियों का सामना करना है। इन फैसलों में दूरसंचार क्षेत्राों में शतप्रतिशत तक प्रत्यक्ष विदेशी निवेश तथा मामले दर मामले के आधार पर रक्षा क्षेत्रा में मौजूदा 26 प्रतिशत से अधिक का प्रत्यक्ष विदेशी निवेश शामिल है।

सरकार ने मल्टी ब्रांड रिटेल में कम्पनियों को उन शहरों में भी आउटलेट खोलने की स्वीकृति दे दी है जिनमें 2011 की जनगणना के अनुसार जनसख्ंया 10 लाख से कम है। इससे पहले विदेशी रिटेलर केवल 10 लाख और उससे अधिक की आबादी वाले शहरों में ही आउटलेट खोल सकते थे। इसके अतिरिक्त सोर्सिंग और बैंक एवं ढांचे के नियमों में भी छूट दी गई है। इसके अनुसार विदेशी निवेशक, आपूर्तिकर्ता का सकल कारोबार एक मिलियन डालर से अधिक होने के बाद भी उन्हीं छोटे और मध्यम उद्यमों से माल लेते रहेगें इस सीमा को दोगुना करके 2 मिलियन डालर कर दिया गया है।

खुदरा, दूरसंचार क्षेत्राों में प्रत्यक्ष विदेशी निवेश में ढील

- ❖ चालू खाते के घाटे को कम करने के लिए सरकार द्वारा अर्थव्यवस्था में नए प्रोत्साहन को मंजूरी जिसमें खुदरा क्षेत्रा में –
    - ❖ मल्टी ब्रांड रिटेल में अनिवार्य 30 प्रतिशत स्थानीय सोर्सिंग नियम में ढील, केवल पहली बार शामिल होने के लिए लागू।
    - ❖ सिंगल ब्रांड रिटेल में शत प्रतिशत प्रत्यक्ष विदेशी निवेश, 49 प्रतिशत स्वतः होगा, 49 प्रतिशत एफआईपीबी के माध्यम से।

दूरसंचार क्षेत्रा

- ❖ सीमा 74 प्रतिशत से बढ़ाकर शत प्रतिशत, 49 प्रतिशत तक स्वतः उससे अधिक एफआईपीबी के माध्यम से।

पैट्रोलियम

❖ पैट्रोलियम रिफाईनिंग में 49 प्रतिशत तक प्रत्यक्ष विदेशी निवेश पहले के स्वीकृत माध्यम की बजाय स्वतः ही होगा।

बिजली क्षेत्रा

❖ पावर एक्सचेंज में 49 प्रतिशत तक प्रत्यक्ष विदेशी निवेश पहले के एफआईपीबी के माध्यम की बजाय स्वतः ही होगा।

वित्त क्षेत्रा

❖ क्रैडिट सूचना कम्पनियों में प्रत्यक्ष विदेशी निवेश 49 प्रतिशत से बढ़ाकर 74 प्रतिशत। स्टाक एक्सचेंज डिपोजिटरीज में 49 प्रतिशत तक प्रत्यक्ष विदेशी निवेश स्वतः ही होगा।

रक्षा क्षेत्रा

❖ प्रत्यक्ष विदेशी निवेश की सीमा 26 प्रतिशत तक ही रहेगी, सीसीएस मामले दर मामले के आधार पर आधुनिक प्रौद्योगिकी के सम्बन्ध में अधिक निवेश पर विचार कर सकती है।

नियन्त्राण

❖ विलय और अधिग्रहण के मामले जिसमें विदेशी कम्पनियां शामिल हैं उसके लिए नियन्त्राण की परिभाषा का विस्तार किया गया है ताकि विदेशी निवेशकों को अधिक स्पष्टता उपलब्ध कराई जा सके। यह संशोधन प्रत्याशित रहेगा। नियन्त्राण की परिभाषा (उदाहरण के तौर पर) जैट एतिहाद सौदे में अनिश्चित है।

❖ अब विदेशी निवेशकों को भी बैंक एंड ढांचे में अपने निवेश के पहले भाग से केवल 50 मिलियन डॉलर निवेश करने कि जरुरत है और उसके बाद किए गए निवेश में नहीं।

सरकार की आर्थिक मामलों की समिति (सी.सी.ई.ए.) ने प्रत्यक्ष विदेशी निवेश नीति में नियन्त्राण की नई परिभाषा की स्वीकृति दे दी है। औद्योगिक नीति और संवर्धन विभाग द्वारा प्रस्तावित नई परिभाषा के अनुसार नियन्त्राण के तहत हिस्सेदारी या प्रबन्धन अधिकार या शेयरधारक समझौते या मतदान अधिकारों के अनुसार प्रबन्धन या नीतिगत निर्णयों में नियन्त्राण के लिए अधिकांश निदेशकों को नियुक्त करने का अधिकार भी शामिल होगा।

| क्षेत्र (Sector) | प्रत्यक्ष विदेशी निवेश (FDI) (%) | भविष्य में अनुमानित (Propsed) (%) |
|---|---|---|
| दूरसंचार | 74 | 100 |
| खुदरा बहु ब्रांड | 51 | 74 |
| बीमा | 26 | 74 |
| पेन्शन | शून्य | 74 |
| रक्षा उत्पादन | 26 | 49 |

भारत जैसे विकासशील देशों में प्रत्यक्ष विदेशी निवेश का महत्व निम्नलिखित तथ्यों से सपष्ट हो जाएगा –

प्रत्यक्ष विदेशी निवेश का सीधा सम्बन्ध विकास से है, इसमें कोई सन्देह नहीं है। विकासशील देशों में विकास से सम्बन्धित जो मुख्य समस्या होती है वह है पूंजी की कमी। पूंजी की कमी के कारण विनियोग के अच्छे अवसर उपलब्ध होने पर भी विकासशील देश विकास नहीं कर पाते। अतः प्रत्यक्ष विदेशी निवेश के द्वारा विनियोग के स्तर में वृद्धि हुई है जिससे विकास संभव हुआ है। प्रत्यक्ष विदेशी निवेश के सहयोग से ही भारत में स्टील, पैटो रसायन तथा इलैक्टोनिक जैसे उद्योगों का विकास संभव हो पाया है। प्रत्यक्ष विदेशी निवेश के कारण ही भारत ने तकनीकी विकास के क्षेत्रा में अलग मुकाम बनाया है। सिंचाई, विद्युत तथा परिवहन के क्षेत्रों में भी प्रत्यक्ष विदेशी निवेश का महत्त्व उल्लेखनीय रहा है। प्रत्यक्ष विदेशी निवेश से पूरे देश में सामान की कीमतों में एकरूपता आई है तथा रोजगार के अवसरों में भी वृद्धिहुई है। प्रत्यक्ष विदेशी निवेश के सम्बन्ध में अपनाई गई नई नीति में विदेशी कम्पनियों को 30 प्रतिशत से अधिक कच्चा माल भारतीय किसानों से ही खरीदना होगा जिससे किसानों की स्थिति में सुधार आएगा।

मोरिशश यू.एस.ए. सिंगापुर यू.के. नीदरलैण्ड जापान जर्मनी साईप्रस फ्रांस स्वीटजरलैण्ड

IJMR
ISSN : 2321-1709
(Oct.-Dec., 2013)
Vol. I No. 2

| 39.9 | 8.8 | 7.2 | 6.1 | 4.4 | 3.4 | 2.9 | 2.1 | 1.5 | 1.1 |
|---|---|---|---|---|---|---|---|---|---|

स्त्रोत : रिजर्व बैंक ऑफ इण्डिया, ''आर्थिक सर्वेक्षण बुलेटिन'' वाणिज्य मंत्रालय

प्रत्यक्ष विदेशी निवेश के कारण अब माल सीधा उपभोक्ताओं को मिलेगा अर्थात बिचोलियों का महत्त्व खत्म हो जाएगा जिससे आम आदमी को सामान सस्ती दरों पर मिल सकेगा। प्रत्यक्ष विदेशी निवेश के कारण रोजगार के अवसर बढ़ने से तथा विनियोगों के अच्छे अवसर उपलब्ध होने से प्रति व्यक्ति आय में वृद्धिहोगी जिससे देश का विकास होगा तथा रुपये की खस्ता हालत में भी सुधार होगा।

प्रत्यक्ष विदेशी निवेश के इतने लाभ होते हुए भी इसकी कुछ सीमांए हैं, जिन पर ध्यान दिया जाना अति आवश्यक हैः–

प्रत्यक्ष विदेशी निवेश कुछ विशेष क्षेत्रों में ही किया जा रहा है जिससे आय, रोजगार तथा विकास में असमानता बढ़ रही है। आमतौर पर विदेशी निजी उद्यमियों द्वारा जो तकनीक भारतीय सांझेदारों को दी जाती है वह अप्रचलित होती है अथवा भारतीय दशाओं के अनुरूप नहीं होती। प्रत्यक्ष विदेशी निवेश के कारण देश की आय का एक बहुत बड़ा हिस्सा रायल्टी् तथा लाभांश के रूप में देश से बाहर चला जाता है जिससे देश में भुगतान संतुलन पर बुरा प्रभाव पड़ता है। प्रत्यक्ष विदेशी निवेश का घरेलू स्थानीय पहलू पर भी गहरा असर पड़ा है। हम धीरे–धीरे विदेशी तकनीक पर निर्भर होते चले जा रहे हैं। प्रत्यक्ष विदेशी निवेश से बहुराष्ट्रीय निगमों की संख्या में भी भी वृद्धिहुई है जिसका सीधा असर लघु एवं मध्यम उद्योगों पर पड़ा है। खुदरा व्यापार में प्रत्यक्ष विदेशी निवेश से सप्लायरों को कम से कम कीमत पर माल बेचने को मजबूर होना पड़ेगा, उत्पादों की कीमतें बढ़ेगीं तथा उपभोक्ताओं के विकल्प सीमित होगें, ऐसा अनुमान लगाया जा रहा है।

हाल ही में सरकार ने जिन क्षेत्रों में प्रत्यक्ष विदेशी निवेश की अनुमति दी है उनमें शामिल हैं –

- ❖ बहुब्रांड खुदरा कारोबार में 51 प्रतिशत प्रत्यक्ष विदेशी निवेश।
- ❖ घरेलू विमानन कम्पनियों में विदेशी विमानन कम्पनियों की अधिकतम 49 प्रतिशत प्रत्यक्ष विदेशी निवेश की अनुमति।
- ❖ प्रसारण सेवा उद्योग की विभिन्न गतिविधियों में विदेशी कम्पनियों को 74 प्रतिशत तक हिस्सेदारी की अनुमति।

निष्कर्ष

इसमें कोई सन्देह नहीं है कि अविकसित तथा विकासशील देशों को यदि विकास करना है तो प्रत्यक्ष विदेशी निवेश के अतिरिक्त उनके पास कोई विकल्प नहीं है। जैसाकि हमने ऊपर पढ़ा है कि अविकसित तथा विकासशील देशों में भौतिक साधनों एवं तकनीकी ज्ञान का बहुत अभाव रहता है जिसके कारण इन देशों में विकास की गति बहुत धीमी रहती है। जैसाकि हम सभी जानते हैं कि भारत भी एक विकासशील देश है। भारत ने अपनी इन समस्याओं को दूर करने के लिए प्रत्यक्ष विदेशी निवेश की नीति अपनाई है जो कि अंतराष्ट्रीय व्यापार एवं विकास की दिशा में एक सकारात्मक कदम है। ऊपर हमने प्रत्यक्ष विदेशी निवेश के लाभ और हानियों के बारे में विस्तार से पढ़ा ओर जाना कि प्रत्यक्ष विदेशी निवेश किसी भी अर्थव्यवस्था के लिए संजीवनी बूटी के समान है जो एक घिसी–पिटी एवं जर्जर अवस्था वाली अर्थव्यवस्था में भी जान डाल सकती है। अतः सपष्ट है कि प्रत्यक्ष विदेशी निवेश किसी भी अर्थव्यवस्था के लिए आवश्यक ही नहीं ब्लकि अनिवार्य भी है।

## सन्दर्भ ग्रन्थ

- ❖ रूद्र दत्त एंड के पी एम सुन्दरम ''भारतीय अर्थव्यवस्था''।
- ❖ यूपीए अर्थव्यवस्था नीति (2012–13)
- ❖ बालासुब्रमणयम वी एन सैपसफोर्ड ''क्या भारत को ओर प्रत्यक्ष विदेशी निवेश की आवश्यकता है आर्थिक और राजनैतिक'' (साप्ताहिक)।
- ❖ चन्दन चक्रबर्ती, पीटर नन्नकाम्प, ''प्रत्यक्ष विदेशी निवेश का भारतीय अर्थव्यवस्था पर प्रभाव''।

❖ गुरुस्वामी मोहन, शर्मा कमल, मोहन्ति जीवन प्रकाश, कोराह थोमस जे ''भारत में खुदरा क्षेत्रा में प्रत्यक्ष विदेशी निवेश'' (2005)।

❖ कुलविन्द्र सिंह, ''भारत में प्रत्यक्ष विदेशी निवेश'' – एक आलोचनात्मक मूल्यांकन (1991–2005)।

❖ मोरिस सिबासतिन, ''भारत से प्रत्यक्ष विदेशी निवेश''(1964–1983)।

❖ 1977 में जनता पार्टी के कथन।

❖ नागराज आर, 1990 के दशक में ''भारत में प्रत्यक्ष विदेशी निवेश''।

❖ परिचालन समिति की सिफारिशें/रिपोर्ट (अगस्त, 2001)।

❖ निरूपम बाजपाई और जैफरी ड़ी साचस, ''भारत में प्रत्यक्ष विदेशी निवेश के मुद्दे और समस्यांए''(2006)।

❖ दैनिक जागरण रिपोर्ट (22, सितम्बर, 2012)।

❖ दैनिक जागरण रिपोर्ट (23, सितम्बर, 2012)।

❖ कुमार एन, ''औद्योगिक, उदारीकरण और प्रत्यक्ष विदेशी निवेश का भारत में प्रवाह '' (1995)।

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❖ एस आई ए पब्लिकेशन्स के विभिन्न विवाद कुमार (1995)।

❖ रिजर्व बैंक ऑफ इण्डिया, ''आर्थिक सर्वेक्षण बुलेटिन'' वाणिज्य मंत्रालय, भारत सरकार।