Dr. Vasudev Narayan Bedekar
(20 February 1917 – 14 April 2004)

A Tribute
Volume of Research Papers
and
Other Contributions
by
Director, Faculty, Staff, Well Wishers and Friends
of

Dr. VN BRIMS

Managed by
KNOWLEDGE MANAGEMENT TEAM
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Smt. Ajita Atre Gupta

A Dr. VN BRIMS Publication

2006

DR VN BRIMS

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Dr. V. N. Bedekar Institute of Research and Management Studies

Dr. V. N. Bedekar Memorial Volume of Research Papers and Other Contributions

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Dr. VNB Photograph

“भिऊ नकोस मी तुझ्या पाठीशी आहे”

कोणते ही कारण असो, रागवू नका. मोठ्याने बोलू नका.

मन शांत ठेवा. विचार करा.

नंतर अंमलबजावणी करा. त्रास फक्त तुम्हालाच.

मन शांति सुख तुम्हालाच.

विचार ही विलक्षण शक्ती असून तुमचे भले करण्याचे सामर्थ्य तुमच्या विचारात आहे.

म्हणून विचार बदला, म्हणजे नशीब बदलेल.

श्री स्वामी समर्थ

“Fear is the greatest enemy of man”
– Swami Vivekananda

“Where the mind is without fear and the head is held high;
Where knowledge is free;

Where the world
has not been broken
up into fragments
by narrow domestic
walls;

Where words come out from the depth of truth;
Where tireless striving stretches its arms towards perfection;
Where the clear stream of reason has not lost its way into the
dreary desert sand of dead habit;
Where the mind is led forward by thee into ever-widening
thought and action-
Into that heaven of freedom, my father, let my country
awake”

“Gitanjali” — Rabindranath Tagore

President's Message

I am happy to learn about the publication by Dr. VN BRIMS of the Dr. V. N. Bedekar Volume of Research Papers and other allied contributions. I am also happy to learn that every member of staff has contributed his/her mite to this volume. The staff of Dr. VN BRIMS need to be congratulated on this grand effort of offering respects to our visionary Dr. V. N. Bedekar. I wish Dr. VN BRIMS and their staff all success in their efforts in improving Management Education. I hope Dr. VN BRIMS will stand out as a leading Management Centre very soon.

S. V. Karandikar
Vidya Prasarak Mandal, Thane

From The Chairman's Desk

I am pleased to know that the Dr. V. N. Bedekar Research Volume is published. When Dr. Guruprasad Murthy, Director, Dr. VN BRIMS initiated the idea in September, 2005, though I was confident about his credentials as a writer and his vast experience in the field of publishing management literature, I was wondering how people will respond to the idea of contributing to a volume like this to be launched by an Institute which is just born. Looking at the contents of this publication I am indeed astounded at the volume and its contents. The beauty of this volume is that different stakeholders of the Institute, the Director, the faculty – full-time and visiting and even the administrative staff have contributed their intellectual mite to the cause of this work,. A cashier, Ms. Deepti Gokhale has contributed articles, the clerical staff have expressed their views on Dr. V. N. Bedekar, Office Superintendent Shri. Deepak Gokhale has contributed and the Secretary to the Director and numerous stakeholders, either the nexuses of Thane College Campus or the network of Dr. Guruprasad Murthy are all visible. This volume spread over more than 350 pages explores many aspects of management – brief information about Dr. VN BRIMS, review of Thane Management movement, contribution from Dr. Guruprasad Murthy's PhD. Scholars – and also those who are pursuing MMS/PGDBM at Dr. VN BRIMS as well as other management institutes with which Dr. Guruprasad Murthy is associated in one role or the other. I am indeed proud that in the very first year of Dr. VN BRIMS we are in a position to produce intellectual capital by way of dedication to Dr. V. N. Bedekar.

In my opinion, there cannot be a better way of publishing, promoting and projecting the cause of any Institute's existence than publication of research papers. This volume is rightly and proudly commemorated with thanksgiving to Dr. V. N. Bedekar after whose name the Institute stands. I am sure that this contribution will go a long way in serving the cause of management education and that the contents of the contributions will reverberate in the atmosphere to produce further celestial notes and inspiration from the founding father of this Institution Dr. V. N. Bedekar. I am thankful to everyone connected with Dr. VN BRIMS and VPM's Thane Campus who have contributed their mite to make this publication a reality. I compliment each and everyone at Dr. VN BRIMS and every person who has made a contribution to this publication, for their grand and successful effort. I wish every stakeholder of BRIMS a great future.

Dr. Vijay V. Bedekar
Chairman
Vidya Prasarak Mandal, Thane

Editorial

The Dr. V. N. Bedekar research volume was a thought which came to me as early as September 2005. The idea was to bring together the contributions of as many stakeholders of Dr. V. N. Bedekar Institute of Research and Management Studies (Dr. VN BRIMS) as possible. The work may be a “pot-pourri”. In fact it is. Nevertheless it is indigenous and totally local. The contributors are, in the main, stakeholders viz. students, visiting and full time teachers, staff and other friends, well wishers and all those who are a part of the network of Dr. VN BRIMS in one way or the other, who have been associated with Dr. VN BRIMS at one time or the other and in one or more roles. This pot-pourri, a bilingual contribution, was offered as a platform to stakeholders to give vent to their veneration, for the revered man Dr. V N Bedekar, through their ideas, emotions, attachments, affiliation to their mother tongue, nostalgia, et al. It was also an opportunity for people to downpour their scholarship, erudition, practical experiences, Ph.D's completed, in process and yet to start, prose, poetry, and any other know-how, cause enough to pen down their inner expressions. The contents of the volume bear ample and eloquent testimony to the same.

The objective of the volume is to bring people together mentally - who says the accountant or staff at Dr. VN BRIMS cannot write? And who can say that teachers at BRIMS do not address the need for contributing to publications? Further, who can say my students at S.P. Jain Institute of Management and Research (SPJIMR), Mumbai or Lala Lajpatrai Institute of Management (LLIM), Haji Ali, Mumbai or Vivekanand Education Society's Institute of Management Studies and Research, Chembur, Mumbai or Dr. VN BRIMS cannot be authors in Management even while they are students. Last but not the least who can say that the visiting faculty only come for lectures and go. They are part and parcel of the internal intellectual processes and capital formation at Dr. VN BRIMS. With the spontaneous contributions from all concerned it became a very easy task to ensure that this 'pot-pourri' publication is a reality. Indeed now it is.

The contents of the book are spread over more than three hundred pages and into several sections.

It is predominantly, nay exclusively, on management. To start with we have the initial setting – the Institute, its appearance, anatomy and all aspects that go to make the ‘alma mater’ - the management, permissions, people — patrons, well wishers, friends, staff, teachers, researchers, students, visiting faculty, alumni, campus nexus i.e. network of sister institutions and every stakeholder concerned with Dr. VN BRIMS or Thane campus.

The work starts with a series of write ups on Late Dr V. N. Bedekar. The contributors are Principal S.W.Gokhale, Shri Mohan Pathak, Smt. Deepti Gokhale, Shri Kishore Nimkar and Shri Anil Karandikar. These write ups are expressions of not only veneration and respect but also fond recall of events, episodes and experiences of individuals in their respective roles vis-a vis Dr. V. N. Bedekar, the man, whose name is synonymous with not only Dr. VN BRIMS but Thane itself. This volume, a collection of research papers and other contributions, was the best way of expressing one's gratitude and gratefulness to someone who has not only had tangible, measurable, contributions to Thane and to society at large but also dwells in the minds and hearts of people who have come in touch with him. I have attempted to capture other people's feelings towards Dr. V. N. Bedekar, imperfectly though, through a poem below:

Those were the good old days,
Those were the good old ways;
He was their good old fellow,
With whom they shared their joy and sorrow ;
One day he left them all hollow,
They are sans their friend and bereft of their old fellow.

In the various interactions with people and their articulation about Dr. V. N. Bedekar, as well as their mindsets about their erstwhile leader and mentor, their friend, philosopher and guide, I have found amongst most persons, if not all, a generous loyalty, a proud submission and a dignified obedience which kept alive in every form of servitude the spirit of an exalted freedom. This research volume is commemorated with proudful thanksgiving and dedication with veneration, respect, love, admiration and fond affection, from all of them, to the great octogenarian of Thane whose memories and inspiration provide them with celestial succour and emotional bonding forever.

The dreams he cherished and relished about a full fledged management institute in Thane Campus with formal recognition for a full time 'Masters Programme in Management' is now true. It is just born and is being nurtured and nourished, as a child or sapling by all stakeholders with love and affection. We hope that Dr. VN BRIMS will sooner or later, preferably sooner, be the cynosure of all eyes on the globe and the venerable soul of Dr. V. N. Bedekar will rest in peace.

Dr.Guruprasad Murthy
Knowledge Manager and Editor
Volume of Research Papers and Other Contributions
Dr. VN BRIMS

About the Contents – A Prologue

The work starts with respects, reverence and remembrances to Dr. V. N. Bedekar as referred to in the Editorial.

This is followed by tracing the nostalgic lane by Shri Deepak Gokhale. Nostalgia brings to surface the contributions of one and all, since 1972. It also traces the historic evolution of management education in Thane through Dr. VN BRIMS. Deepak Gokhale has dug into the files of Vidya Prasarak Mandal to present in his characteristic, laconic, style, the memory lane of the Institute. This will be a record of different activities and people associated with Dr. VN BRIMS. As and when future wants to recall the past for its nostalgia, there is a ready reckoner. Deepak Gokhale has traced the historic evolution of the Institute since 1972 and also lists the names of persons associated with management education and management movement of Thane, at different points of time over the last three decades or more.

Following Deepak Gokhale's contribution is an overview of Dr. VN BRIMS by Shri Rajagopal Iyer based on a series of presentations made by Dr. Guruprasad Murthy, Director, Dr.VN BRIMS and others to various authorities and visitors to the Institute from time to time. Next, Shri Rajagopal has presented, in just a few pages, the vision, mission statement, the objectives, the anatomy of the Institute in terms of seating capacity, library, IT infrastructure – the cluster and the operations and also IT facilities. He says: "As the World of business shifts its focus from manufacturing to services in the paradigm of knowledge economy, effective IT usage becomes indispensable".

This is followed further by a write-up given by Shri. Koustubha Kale. He presents an architectural overview of the IT platform of Dr. VN BRIMS. He concludes by saying that "The current setup has been sized with the view that from June 2006 as the second batch starts our user base will be effectively doubled. As such we are adequately covered for the immediate future".

The Thane Management Movement, by Principal Y. B. Bhide is next to follow. He has been in the forefront of this Institute in Thane in many ways. His main focus has been on the changes Thane has witnessed and the need for local organisations Thane Manufacturers Association, Thane Small Scale Industries Association and Bombay Management Association to provide managerial inputs to overcome the shortcomings in the competencies of local talent in Thane. He says these organisations -"brought the entrepreneurs and managers together, allowed them to have exchange of views and experiences and share knowledge and experiences". Principal. Bhide also addresses the issue of the emerging scenario in Thane and advises that Dr. VN BRIMS will have to address the paradigm shift in management education to play the destined, desired and due role effectively.

The next article is by Prof V. S. Bhakre, a forerunner in the management movement in Thane. His thoughts, best wishes and dreams for the Institute are most welcome. Crystal Ball Gazing is amongst the initial contributions in the volume and the short, but sweet write up says - "The evolution of Dr. VN BRIMS can be compared to a Chinese bamboo tree . During the first four years after seeding, just a tiny shoot comes out of a bulb. Initially first four years all growth is underground, deep and wide in the earth. But in the fifth year Chinese bamboo tree grows up to 80 feet. This is what happened in 2005." Today Dr. VN BRIMS building with state of the art sprawling space and facilities is definitely, as Prof. Bhakre says, a cynosure of all eyes. Our management Institute will definitely be --- 'Human resource suppliers to the corporate World'.

ASSESSMENT CENTRE

How can Dr. VN BRIMS or Thane College Campus network of institutions be a source of human capital to end users? The next write-up on "Assessment Centre" by Dr. Pooja Lakhanpal addresses the same. It presents sharp ideas by sowing seeds of thoughts which, if implemented, can provide opportunities to youth in the campus (and outside) to assess their competencies vis-a-vis their dreams and planned destinations. They can also perform a gap analysis and either adjust aspirations to competencies or improve competencies to help them to reach destinations. An assessment centre will help in identifying competency framework, mapping, gaps and development. Thus it will help the students to identify their proximity (or otherwise) to their desired dreams and destinations.

ECONOMIC SNAPSHOT OF INDIA - Tryst with Destiny to date

The research volume starts by a contribution from Shri Rajagopal Iyer. A picture is worth a thousand words. Different kinds of graphs can make a very exciting and effective device of communication. This terse presentation is followed by a display of graphs — An Economic Snapshot of India. This compilation provides a graphical presentation of key economic indicators of India for more than five decades. The key parameters portrayed include, inter alia, agricultural productivity, electrical capacity, employment, inflation rate and GDP. This compilation is the outcome of projects presented by MMS students 2005-2006 of Dr. VN BRIMS in partial fulfilment of the course requirements in the paper 'Managerial Economics' facilitated by Shri K. K. Nijasure, Research officer at Dr. VN BRIMS.

The economic development of the country since 1991 has undergone a sea change in philosophy – an about turn from post independence socialism and its shibboleths to a market driven system where competition is the guiding factor and market is the arbiter of economic activity – the philosophy of survival of the fittest. Through a variety of quotations, starting with Jawaharlal Nehru's speech on the eve of India's Independence day, 15th August 1947 - 'Tryst with Destiny' to the latest economic survey (February 2006), the statistical snapshot of the Indian economy is supported by thoughts prevailing at different points of time.

This about turn, and a literal volte-face by the Government, has accepted, for the time being the failure of socialism and Public Sector Undertakings as instruments of social justice[*]. It has also accepted that capitalism is a potent instrument to tap the springs of private enterprise. However, the process of economic development is hindered and hampered through corruption, may be all over the World. Some mention about the same finds a place too in the concerned section.

BALANCE OF PAYMENTS

The balance of payments position of India is something which every Indian used to be skeptical about. Today the position is different. We are comfortable on the foreign exchange front and this is reflected in a strong Indian Rupee (INR), which is now on the ascent. INR is now willing to take the mighty U.S. dollar which has started going down vis-a-vis the INR since June 2002. To add to the kitty full capital account convertibility has been proposed by the Government. As on 10th March, 2006, India's forex kitty has been steadily growing and stands at 143.92 US$ billion. As Shivani Takalkar, a contributor to this volume, quotes the Prime Minister in her article "Rupee on the Ascent": "Our position, internally and externally, has become far more comfortable.

Given the changes that have taken place over the last two decades, there is a merit in moving towards fuller capital account convertibility within a transparent framework". (Business Line -19th March, 2006 P – 1).

The economic system has to experience to respond to circumstances in decreasing reaction time and survival of fittest principle has to operate on an objective and on an on-line basis. Financial disclosures, accountability and transparency ought to improve. Disinvestments, particularly of non-performing assets, must be speedy

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* *Marxist Buddhadeb Bhattarjee has gone on record to say that "We are not doing socialism here, what we are doing is capitalism .... It is clear that we will not be able to establish socialism. Let us see how much we can do for workers from within this". Source – Times of India 14th April, 2006, News item – Marxist Buddha swears by capitalism pp. 13.*

and driven by objective and transparent criteria. However, a caveat is in order. The South Asian Crisis (1996) comes to mind. Granting all the plus points in favour of convertibility viz. size of forex reserves, successful economic reforms, controlled inflation, capital market regulation and the INR's movement vis-a-vis other currencies, caution is required.

A brief overview of cross – country statistics is presented next to add flavour to the statistics of the Indian Economy.

NEW LANDSCAPE OF BUSINESS

The next article by Dr. Guruprasad Murthy, new landscape of business, provides the setting of business since 1991. The era of globalisation, liberalisation and privatisation along with the electronic media revolution has totally changed the rules of business. The article focuses on three main issues viz. innovation, information revolution and importance of knowledge management systems and processes. The new landscape of business requires new themes for a new World economy, society and even polity in many cases - a la erstwhile USSR.

The twelve themes of the new economy finds a place before the article and a few slides act as a suffix. The emerging times where the World is a global electronic village, no one needs to go anywhere. All of us can be here. An illustration of what future activities will look like is thus brilliantly presented.

The whole World can see an orchestra performance from home and the orchestra team may be spread over the sprawling Universe viz.: Guitarist in London, drummer in New Orleans, Singer in Toronto, Live chorus in South Africa, Producer in Hollywood or Berkshire, keyboard player in Tokyo, Czech chamber orchestra in Czechoslovakia and the audience themselves in their respective homes all over the World.

The poem below says it all:

"THERE WILL BE A ROAD
IT WILL NOT CONNECT TWO POINTS
IT WILL CONNECT ALL POINTS
IT'S SPEED LIMIT WILL BE THE SPEED OF LIGHT
IT WILL NOT GO FROM HERE TO THERE
THERE WILL BE NO MORE THERE
WE WILL ALL ONLY BE HERE."
Source:1994 Television, recited by Academy Award Winner Anna Paquin

Decision making

A recent Harvard Business Review[1] carried a special number on decision making. The HBR traces decision making processes from times immemorial and provides an overview of different decision making approaches. A glimpse of the same is presented in this volume through a compilation made by Shri Deepak Gokhale.

DATA, INFORMATION AND KNOWLEDGE

Knowledge Economy and Knowledge Society has to learn to distinguish and discriminate between the nuances and subtleties governing different expressions namely data, information, metadata, knowledge, instrumental understanding, wisdom and tradition. Hence an interesting presentation of the same. The key features of a knowledge society, based on a Government of India publication[2], are also exhibited.

CORPORATE CULTURE

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1 *Harvard Business Review - January 2006 , pp 34 -41*

2 *India Knowledge Super Power, Task force report, Planning Commission, Government of India Publication, June 2001.*

The focus now shifts to Corporate Culture and Organisational Performance. Dr.Indu Saxena's article, is based on her Ph.D thesis. The main message is that there are distinct patterns of culture between the three categories of companies studied viz. well performing organisations, turned around organisations and sick organisations. The message for organisations is — "The suit must fit, customised strategies must take account of the variables of technology, people, skills, processes and culture in an organisation".

The next article again on Corporate Culture this time of the Software Industry by Lt. Col. Venkatraman . The thrust of the work is on Software Industry.

Challenges of Corporate Excellence by Smt. Vilasini Patkar in a cross cultural environment follows. It addresses the issue of intelligent quotient, emotional quotient and the role of leaders in handling situations. This depends upon their possessing a right mix of the said quotients. She rightly says: "Leadership traits are not inborn, but can be developed".

Dr. Pooja Lakhanpal's article titled "Pygmalion Effect - understanding of implications of manager subordinate relationship at the work place" follows. The outcome of the research indicates that manager subordinate relationship is reciprocal in nature. As the relationship extends into the future, mutuality inter-se improves acquaintance. The behaviour tends to be mutually congruent and goal directed. It goes a long way in promoting goal congruent behaviour or at least in minimising dysfunctional responses. Thus, "behavior towards the subordinate tends to become consistent and homogeneous".

Creativity and Innovation by Smt. Ajita Atre Gupta is next. Corporates today are exploring what Schumpeter has said many years ago - that innovation and economic development are inextricably interlinked. In fact innovation is the engine of economic growth. She has identified the meaning of various aspects of creativity and innovation based on her exploration of literature and hands on experience with HR department of a manufacturing organisation in the Thane belt.

Innovative practices in Industry, Tihar Jail, Cadbury Industry and others make interesting readings. This again is a project submitted in partial fulfilments of the course requirements in Organisational Behaviour by MMS First Year Students (2005-06) of Dr. VN BRIMS facilitated by Dr. Pooja Lakhanpal.

INDUSTRIAL SICKNESS

The work now moves to industrial sickness an issue of utmost importance. If the productivity of our economic system has to improve industrial sickness has to be monitored . The article by Dr. G. Y. Shitole and Smt. Lalli Rajan provides insights about Industrial Sickness in Dombivali, Ambarnath and Badlapur MIDC areas in Thane District of Maharashtra. They conclude that lack of professionalism and competitiveness is seen among the entrepreneurs, the state authorities and the private association.

Two Interesting cases on turn- around Tata Motors turn- around and Scooters India Ltd (SIL) follow. Tata Motors Loss of Rs.500 crores in the financial year 2001 – was one of the largest. Its recovery too was easily one of the finest – a miracle par excellence.

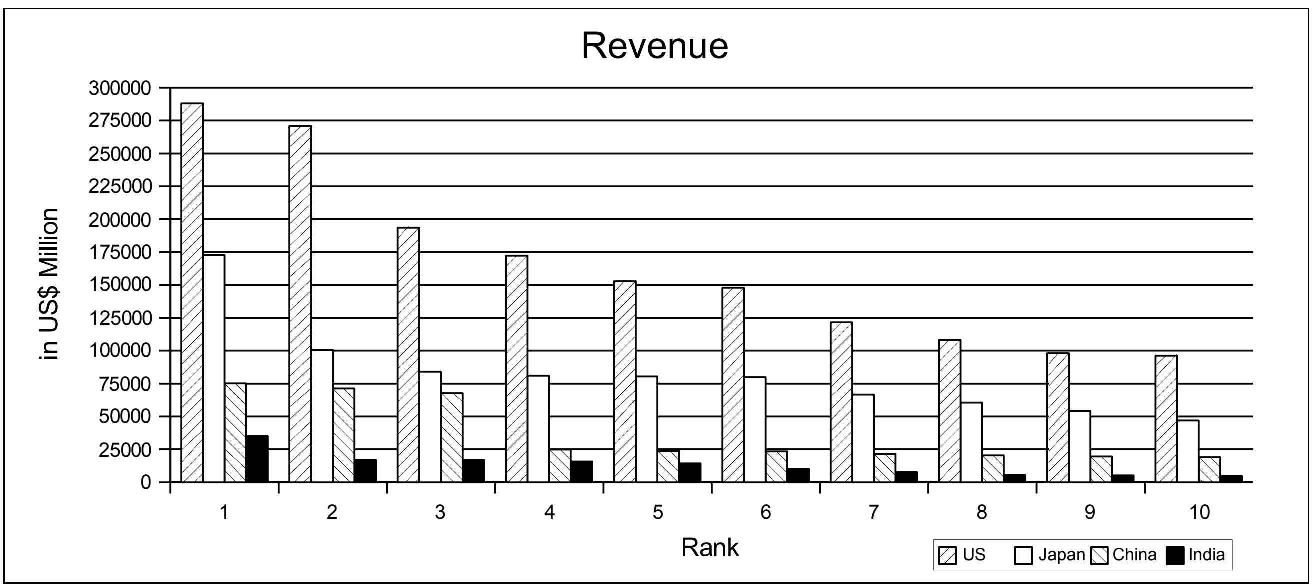
Scooters India Ltd (SIL) a PSU in the Uttar Pradesh went into the Guiness book of records for recovering from sickness which plagued the Public Sector Undertakings for 25 years. This Public Sector Undertaking made a profit in the silver jubilee year. A brief mention of SIL and its turnaround story makes very interesting reading.

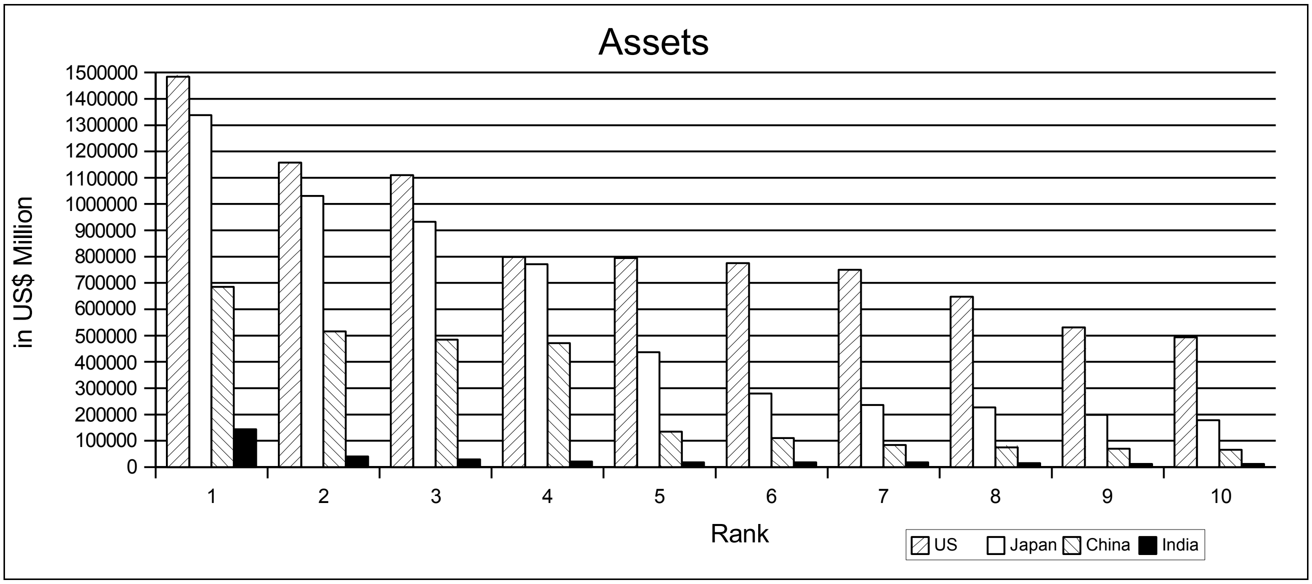
The article on Corporate Budgeting practices by Smt. K. K. Nijasure makes interesting reading on a topic which is of universal importance. The article explores new drivers of budget and also financial and non financial metrics. The article transcends beyond traditional budgeting and explores role of budgets in creating value for customers. The next write up on budgeting is 'PADTA System' which traces the modus operandi of an indigenous budgetary control system.

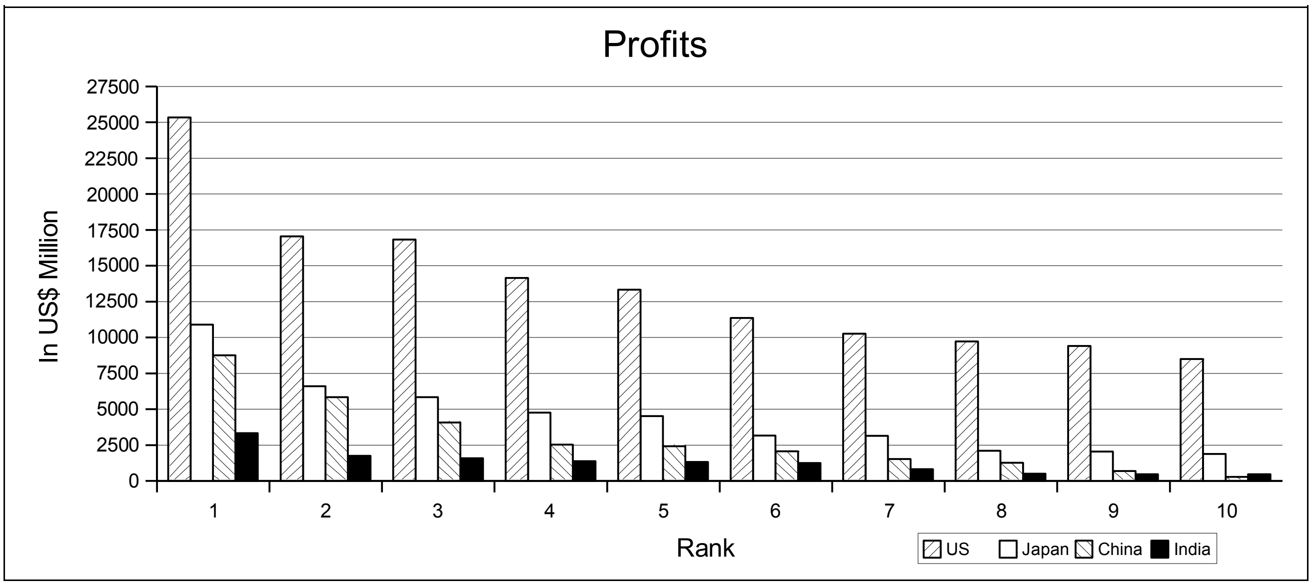
Capital Budgeting in IT Projects – ROI Approach is the next feature by Dr. Vishnu and Shri Shankar Kanhere. The entire gamut of IT Projects is captured within the ROI framework Du Pont Chart. As the authors say "determining the ROI of IT projects helps in crystallising the intangible benefits and non quantifiable considerations". Continuous improvements in project management process will help in ' better calibration and better estimates'.

ROI of Hindustan Levers in Marathi is the next redeeming feature. The article in Marathi, by Shri. Kedar Nijasure and Smt. Deepti Gokhale explores the ROI of Hindustan Lever based on the live figures from published annual report, for the years 2001 to 2004.

Again an article on ROI, by Amitpal Singh and Rajkumar Singh, this time companies across continents, being brought for comparison on a common scale viz. USDs for the year 2005 for comparison with respect to revenues, assets, profits, profit margin, asset turnover and ROI. What emerges is very interesting. While Indian multinationals are coming of age in terms of size, there is a big gap between Indian corporates and their counterparts in US, Japan and China. Considering revenue alone, the graphs presented below indicate the 'pygmy size' of Indian Inc. vis-a-vis the US, Japan and China Inc's. The top Indian Company is only 12%, 10% and 13% of the top US Co. in terms of revenues, assets and profits respectively. In fact the top Indian Company is only 36%, 29% and 39% of the tenth ranked US Co. in terms of revenues, assets and profits respectively. On these scores, Indian Companies, vis-a-vis Japan and China Inc's, rank a little better when compared to the India versus US situation.







Risk Management is the next topic. It starts with a chart on different types of risk compiled by Shri Sandeep Bhavsar

Strategic risk management by Dr. Vishnu Kanhere is the next article. A technical topic well presented. The prisoner's dilemma explains the nature and meaning of risk and the risks associated with risk taking and risk aversion. Of course it is never possible to mitigate or eliminate risks totally. One has to choose the right mix of solutions namely – bear, share and insure.

Valuation is another aspect of corporate economic management. The author, Dr. Vishnu Kanhere has provided a list of twenty five types of value based on his thesis now published as a book "Software Valuation".

Another important area in financial management is "Financial Derivatives". ShriShankar Kanhere the author says that "Derivatives are a broad set of instruments whose values depend on some underlying basic assets and variables". This article will help readers to get acquainted with the state of the art concepts in the area of finance.

A list of financial instruments a compilation based on a project done by eleven students of S. P. Jain Institute of Management Research under the guidance of Dr. Guruprasad Murthy follows. There are, to be precise, eighty nine instruments in all. This is a very useful list for further research.

Another article again in the area of financial management, this time on corporate treasuries by two students of SPJIMR. Raghav Sud and Anand Oswal. The article explores traditional concept of treasury management, the corporate treasury and its transformation, centralised treasuries and just in time treasuries.

Mergers and Acquisitions - yet another important area is explored in brief. Mr. Ajay Piramal's tactics, is spelt out in a book[1]. He is projected as a role model, compelling persuader, in mergers and acquisitions. This is followed by a Merger and Acquisition lexicon prepared by Mr. Milan Shah a MMS second year student at Vivekanand Education Society's Institute of Management Studies and Research, pursuing a project (MMS – Second Year, 2006) under the guidance of Dr. Guruprasad Murthy.

Corporate Governance, (CG) another important area for study, is addressed by Smt. Shanti Suresh . The paper explores different models of Corporate Governance across the global network viz. Anglo – American model, Japanese model, European model, Indian model. An inter-se analysis brings out the sharp features of commonality and contrast. A table, presenting an analysis of different Corporate Governance models in juxtaposition provides an overview of the thoughts of the authoress who concludes by saying that --- "a dynamic governance model will emerge through trust building, freedom from excessive regulation, investor performance and flexibility in Corporate Governance".

A CRISIL study on Corporate Governance released in Nov 2005 is presented as a follow-up. The study concludes by saying " Corporate Governance is best judged by its outcome. Any governance model to be successful, and to be reliable, has to pass the test of providing the desired outcome namely, sustainable value creation for all stakeholders and wealth maximisation for shareholders over a long time frame".

US GAAP versus Indian GAAP follows the theme of corporate governance

Ethics has to be near Corporate Governance and is central rather than peripheral to Corporate Governance. The article by Lt. Cdr. Jaswant Singh elucidates Human Values and economic prosperity.

The financial wizardry of the Ambanis between 1997 to 2002 by Shri Naveen Sambtani makes brilliant reading. The author has explored the financial action of the Ambanis through Reliance Industries Ltd. and has analysed it very incisively. He concludes by saying that "Reliance Industries Limited is an exemplary example for financial acumen, financial innovation and above all financial prowess". The financial genius of Dhirubhai for the last three decades will be immortalised in corporate Indian history.

Management Control System by Prof. Suresh Mony follows. The author has addressed important areas concerning management control system. The paradigm shift from the primary and secondary sectors to the tertiary sectors is addressed. Similarly old economy and new age companies, size, multinational corporations et al. have been discussed and the issue of customised management control system has been presented. Researchers should explore this further.

An interesting article on jurisprudence governing business decisions Jessica Lal and 'L' Affaire Quattorochi by Shri Nadirshaw Dhondy and yet another article on Jurisprudence governing decision making by Shri Abhijeet Sonawane a third Year Law student at VPM's TMC Law College, Thane make interesting reading. Shri Dhondy presents the two cases in his characteristic style and quotes Shakespeare to say 'O Judgement thou are fled to brutish beasts'. The next article on Jurisprudence explores the theme: Juris dicere et non jus dare: Judges administer the law, and not make it.

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1 *Source: Prof. Shivramu, Corporate Growth , Sage Publications, 1998 (pp 245, 47, 253)*

The subsequent articles are a heterogeneous set and address issues of a rather varied nature viz . Textile industry with focus on strategic cost management by Shri. R. S. Verma followed by the Agile Supply Chain by Shri A. S. Chaubal . Further there are articles on KVIC's role in rural development by Smt. Vilasini Patkar and Role of internet in Intellectual Property Rights by Shri Sandeep Bhavsar.

These articles make interesting reading of a cross section of ideas and thoughts by learned authors on a variety of topics adding a flavour of an assorted view of management and management related inputs.

The last phase of the volume is a collage and the diagram presented in the relevant section speaks for itself. The said diagram presents the contents viz:

Cross country comparisons, Heritage Corner, Gurus Speak, Quality speaks, Management Quotes, Students' Corner, Marathi Lexicon and Management musings.

We have Japanese, US, India, China compared on various counts.

Further Indian heritage and management is captured through Kautilya and Mahatma Gandhi.

Gurus speak provides insights in to the profile of the likes of Shri. N. R. Narayana Murthy (Infosys), Shri Azim Premji (Wipro), Ms.Kiran Majumdar Shaw (Biocon India Group) Mr. Deepak Parekh (HDFC) Ambanis (Reliance), Mr. V. Kurien of Amul fame

Quality Management receives adequate attention and is a serious proposition at Dr. VN BRIMS.

Students' corner includes a study carried out by students on the various communities of India that have contributed to entrepreneurship. Chettiars, Kamats, Marwaris, Patels, Parsis, Sikhs are all presented. Again another study carried out by the students finds a place viz. placement strategies of Indian Business Schools and a review of the rankings of Business in the country is presented.

The volume ends with a lexicon which tries to provide a list of management terms in Marathi and a section titled management musings which captures amongst other things few quotations, adhoc experiences and few other interesting inputs including management related, translated quotations in Marathi.

These diverse inputs though a 'pot pourri', provides variety to the reader on various aspects on management. In the opinion of the editor it is a rich collection and useful to scholars in management. I hope this volume serves the purpose of providing inputs which are useful to the management World. Suggestions and improvements for future volumes are most welcome and may be sent to vnbrims@vpmthane.org

Even while this work was in the press we have an activity to report on. The students of MMS I (2005-06) and PGDBM I and II (2005-06) went on an industrial visit to Karjat to explore and experience the rural marketing environment. They were guided by Shri Kailas Chitnis who interacted with students at the site. A brief report is presented in this volume.

In conclusion I would like to say through the words of the great poet Milton:

The Invention admir'd and each, how hee
to be th' inventor miss'd so easie it seemed
Once found, which yet unfound
most would have thought impossible.

– MILTON, Paradise Lost.

Dr.Guruprasad Murthy
Knowledge Manager and Editor
Volume of Research Papers and other contributions
Dr. VN BRIMS

Dr. VN. BRIMS

Thanks

all contributors
to
this volume

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Vidya Prasarak Mandal, Thane

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Table of Contents

सौ. दिप्ती गोखले

व्यवस्थापन म्हणजे काय?

नेतृत्व, धडाडी, योजना, पकड, ह्या सगळ्या गोष्टी एकाच ठिकाणी पहायला मिळाल्या त्या डॉ वा. ना. बेडेकर ह्यांच्यात! डॉ. बेडेकर आणि आमचा परीचय ८-९ वर्षांचा. त्यांच्याबद्दल लिहिण्यासाठी आम्ही म्हणजे खूपच लहान आहोत. परंतु आम्हाला मनापासून आदर असल्याने लिहिण्याची स्फूर्ति मिळाली .

मी या संस्थेत १९९७ पासून आहे. संस्था अर्धवेळ व्यवस्थापन अभ्यासक्रम चालवत होती. आपल्या देशाची जागतिकरणाकडे वाटचाल सुरू झाली आहे . तेव्हा आपल्या तसेच इतर संस्थांमध्ये सुध्दा हळूहळू लोकांचा कल अर्धवेळ अभ्यासक्रम करण्यापेक्षा पूर्णवेळ अभ्यासक्रम करण्याकडे होत आहे. एकदा आमच्या ऑफीस मिटींग मध्ये विषय झाला होता की "संस्था चालावी ही आमची खूप इच्छा आहे. परंतु मुले येणे बंद झाली तर संस्था चालणार कशी?". त्यासाठी ए.आय.सी.टी.ई. कडे एम.एम.एस. अभ्यासक्रमासाठी अर्ज केले, पण संस्था काही अटी पूर्ण करू न शकल्यामुळे ए.आय.सी.टी.ई. ची मान्यता मिळाली नाही. त्यासाठी बराच निधि ही लागणार होता.

१९९८ साली प्रो. लाड डायरेक्टर म्हणून नियुक्त झाले. त्यांच्याकडे पूर्णवेळ अभ्यास्क्रमाच्या योजना होत्या. जरी एम. एम. एस. अभ्यासक्रमाला मान्यता मिळाली नाही, तरी आपण स्वतःचे अभ्यासक्रम निर्माण करू शकतो असा विचार प्रो. लाड यांनी मांडला व डॉ. वा. ना. बेडेकर त्यांच्या पाठीशी हिंमतीने नवीन वाटेकडे जाण्यासाठी सज्ज झाले. डॉक्टर साहेबांचे परिश्रम व चिकाटी त्यातून पी.जी.डी.बी.एम/डी.एम.एस. (बारावी नंतर) या अभ्यासक्रमाचा जन्म झाला. पालक मुलांना कशासाठी शिक्षण देतात? जेणेकरून त्यानां चांगली नोकरी लागावी, किंवा, त्यांनी व्यवसाय सुरू केला तर त्यातून त्यांची आर्थिक, सामाजिक, तसेच शैक्षणिक प्रगती व्हावी. नुसती सर्टिफिकेट बघून नोकरी मिळण्याचे दिवस आता उरले नाहीत. तुमच्या गुणांना वाव देऊन तसेच प्रत्यक्ष कामाचा अनुभव असला तर माणूस कोठेही टिकू शकतो हे मुलांचा मनात बिंबवले पाहिजे व त्यानुसार पी.जी.डी.बी.एम. या कोर्सचा आराखडा तयार केला त्यासाठी मुलांना प्रत्यक्ष कामाचा अनुभव मिळणे आवश्यक होते म्हणून डॉ. बेडेकर ह्यांनी स्वतः पुढाकार घेऊन आपल्या इतर विभाग (डॉ. बेडेकर विद्या मंदिर, ए. के. जोशी इंग्लिश मिडियम स्कूल) यांच्या मुलांसाठी युनिफॉर्म तयार करण्याची ऑर्डर मिळवली व पी.जी.डी.बी.एम च्या मुलांना प्रत्यक्ष कामाचे प्रशिक्षण देण्यात आले. प्रत्येक मुलाचे टेप घेऊन माप घेण्यापासून ते टेलरकडून शिवून घेण्यापर्यंत शिकविण्यात आले. तेव्हा संस्थेतील एक खोली म्हणजे गार्मेंट फॅक्टरी आहे कि काय? असे थोडे दिवस वाटत होते. ह्या प्रत्येक टप्प्यात डॉ. बेडेकर यांचा महत्वाचा वाटा होता. डॉक्टर दररोज संध्याकाळी ७-८ वाजता न चुकता येत असत. कापड चांगले आहे कि नाही? त्याचा रंग जातो का? वगेरे बघण्यासाठी डॉक्टरांनी श्री. लाड सरांच्या केबिनमध्ये ३-४ भांड्यांमध्ये ४ प्रकारची कापडे पाण्यात भिजत ठेवली होती. मला वाटत नाही कि असा कुठल्याही संस्थेचा अध्यक्ष अशा प्रकारचा सहभाग घेत असेल. जसे अधु मुलांचे आई वडील त्यांची जास्त काळजी घेतात तशी डॉक्टरांनी व्यवस्थापन विभागाची घेतली.

दुसरा अनुभव म्हणजे मुलांसाठी श्री. लाड सर व डॉ. बेडेकर यांनी आवळा सरबत/आवळा कॅण्डी तयार करून विकण्याचे ठरविले. त्यासाठी ते आवळ्याचा रस कसा तयार करतात तिथपासून ते त्यांचे पॅकिंग कसे असावे इथपर्यंत प्रत्येक कामात त्यांचे लक्ष होते व त्यांना विक्री विभाग मिळावा म्हणून त्यांनी दवाखान्याचा वरचा मजला वापरण्यासाठी दिला तसेच दवाखान्यात सुद्धा सरबताचा नमूना ठेवला होता. यात त्यांचा स्वतःचा नफा काहीच नव्हता. वेळेला त्यांनी खिश्यातून पैसे दिले आहेत.

असाच एकदा खूप पाऊस आला तेव्हा आम्ही व पी.जी.डी.बी.एम ची मुले असे सगळे ऑफीसमध्ये अडकलो हे डॉक्टरांना समजताच त्यांनी लगेच श्री. उत्तम

जोशी यांना फोन केला व विठ्ठल (आमचा कर्मचारी) याला पाठवून त्यांच्याकडून दोन मोठ्या सतरंज्या, गाद्या मागवल्या. रात्री मुलांची कॅन्टीनमध्ये जेवणाची व झोपण्याची सोय केली.

रत्नागिरीहून त्यांच्या घरचे आंबे आले तेव्हासुध्दा फक्त श्री. लाडसरांसाठी आंबे न आणता ऑफीसच्या प्रत्येक स्टाफसाठी आंबा आणला व म्हणाले "बघा आमचा घरचा आंबा कसा आहे तो? तसेच तिथून फणसाचे गरे (तळुन) आणले व विकावयास दिले.

मोठे साहेब आले आहेत त्यांच्यासाठी औपचारिकता पाळा वगैरे ह्या गोष्टी त्यांचा खिजगणतीतसुद्धा नसत. समजा एखाद्यावेळी ते येतांना आमची पाठ वगैरे असेल तर ते स्वतःहुन हाक मारीत "काय बाई कशा आहात? सगळे व्यवस्थित आहे ना? फोन वगैरे आला तरी सुद्धा आस्थेने चौकशी करीत. एवढे सगळे करून पुन्हा अहंपणा त्यांच्यात अजिबात नव्हता. कुठल्याही मानाची त्यांना अपेक्षा नसायची

दरवर्षी एखाद्या वर्गात आम्ही त्यांचा वाढदिवस साजरा करत असू त्या दिवशी सुध्दा मंडळाच्या इतर संस्थांमधील कार्यक्रम आटोपून आमचा छोट्या समारंभाला आवर्जून हजर राहात व विद्यार्थ्यांना तसेच आम्हाला उत्तेजन देत असत.

अगदी २००४ साली सुध्दा २० फेब्रुवरी ला त्यांचा वाढदिवस असाच छोट्याप्रकारे साजरा केला तेव्हा आमच्या एका विद्यार्थ्याने सगळ्यांना शंभर टाळ्या वाजविण्यास सांगून शतायुषी होण्याच्या शुभेच्छा डॉ. साहेबांना दिल्या तेव्हा ते म्हणाले "ते काही आपल्या हातात नाही परंतु आता भूमिपूजन झाले आहे तेव्हा संस्था आता मोठी झेप घेण्यास सज्ज झालेली आहे व ती डॉ. साहेबांची इच्छा पूर्ण करण्यासाठी त्यांची पुढची पीढी म्हणजे डॉ. विजय बेडेकर ह्यांनी अक्षरशः अथक परिश्रम करून संस्थेला संजीवनि देऊन नवीन आकार प्राप्त करून दिला आहे व त्याला डॉ. व्ही. एन. बेडेकर इन्स्टिट्यूट ऑफ रिसर्च ऍण्ड मॅनेजमेंट स्टडीज हे नाव देऊन वडिलांच्या कष्टाची पावती दिली.

आता भारत जागतिकीकरणाकडे वाटचाल करतो आहे. त्यासाठी डॉ. विजय बेडेकर हे विद्या प्रसारक मंडळाच्या सगळ्या संस्थांना आपल्या बरोबर घेऊन मोठी झेप घेत आहेत. तेव्हा संस्थेच्या प्रत्येक सभासदाची डॉ साहेबांना त्यांचा कामात आपल्या परीने हातभार लावून आपला खारीचा वाटा उचलण्याची जबाबदारी स्वीकारावी! हीच डॉ. वा. ना. बेडेकर यांना चांगली श्रध्दांजली ठरेल.

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अनिल करंदीकर व किशोर निमकर

डॉ वा. ना. बेडेकर हे नाव शिक्षण क्षेत्रात अग्रेसर असून त्यांचे या क्षेत्रातील झालेले कार्य पाहता त्यांना शिक्षण महर्षि असे म्हटले तर वावगे ठरू नये. त्यांनी विद्या प्रसारक मंडळाची अध्यक्षपदाची धुरा यशस्वीपणे सांभाळत व अनेक निष्ठावंतांच्या सहकार्यामुळे हिमालयाएवढे उत्तुंग कार्य केले. त्यांचा पेशा हा डॉक्टरी असल्यामुळे त्यांनी जसा अनेक अपत्यांना जन्माला आणले त्याप्रमाणे मराठी व इंग्लीश मिडीयम शाळा, कला, वाणिज्य, सायन्स महाविद्यालय, तंत्रनिकेतन, व्यवस्थापन विभाग ही सगळी त्यांची अपत्ये आहेत.

१९७४ साली व्यवस्थापन विभाग स्थापन झाला असला तरी आजपर्यंत त्यात बरीच स्थित्यंतरे झाली. प्रा. बी. एन लाड, माजी संचालक, व्यवस्थापन विभाग यांनी १९९९-२००० या शैक्षणिक वर्षात पदव्युत्तर कोर्स (पी जी डी बी एम) सुरू केला. तेव्हापासून व्यवस्थापन विभागाने कात टाकली असून आज ही संस्था अखिल भारतीय तंत्रशिक्षण मंडळ या संस्थेकडून मान्यता मिळालेली संस्था म्हणून दिमाखदारपणे उभी आहे. या सगळयांमागे डॉक्टरांची प्रबळ इच्छाशक्ति कारणीभूत आहे. व्यवस्थापन विभागाची स्वतंत्र इमारत व्हावी, तिला मान्यताप्राप्त संस्थेकडून मान्यता मिळावी व ती संस्था आंतरराष्ट्रीय दर्जाची व्हावी अशी त्यांची इच्छा होती. आता व्यवस्थापन विभागाची स्वतंत्र अद्यावत इमारत तयार असून संस्था त्यात कार्यरत झालेली आहे. इतकेच नव्हे तर, केन्द्र सरकारच्या अखिल भारतीय तंत्रशिक्षण मंडळाच्या काही सदस्यांनी ही संस्था भविष्यात आंतरराष्ट्रीय दर्जा प्राप्त करू शकेल असा विश्वास व्यक्त केला, त्यामुळे डॉक्टरांचे उर्वरित स्वप्नसुध्दा लवकरच पूर्णत्वाकडे झेपावेल यात शंका नाही.

डॉक्टर त्यांच्या वयाचा विचार न करता किंबहुना तरुण मंडळींना लाज वाटावी एवढे त्यांनी व्यवस्थापन विभागाच्या जडण-घडणीत अथक परिश्रम घेतले. इमारतीसाठी निधि उभा व्हावा म्हणून त्यांनी सांस्कृतिक कार्यक्रमाचे आयोजन, सोव्हिनीअरसाठी जाहिराती मिळविणे यासाठी त्यांनी वेळोवेळी मोलाचे मार्गदर्शन केले. प्रसंगी त्यांनी त्यांचा ओळखीच्या व्यक्तीकडे जाऊन

निधि संकलनासाठी मदत केली. एवढेच नव्हे तर त्यांनी स्वतः एक्याऐंशीव्या (८१) वाढदिवसासाठी मिळालेली ८१,०००/- रुपयांची थैलीसुध्दा व्यवस्थापनाच्या इमारत निधिसाठी दान केली. यावरून त्यांचा मनाचा मोठेपणा व संस्थेशी त्यांची असलेली आपुलकी लक्षात येते.

डॉक्टर स्वतः रोज संध्याकाळी व्यवस्थापन विभागाच्या ऑफीसमध्ये येऊन दोन-तीन तास बसून नवीन घडामोडी किंवा संस्थेची भरभराट लवकरात लवकर कशी होईल या विषयीचे आराखडे ते माजी संचालक प्रा. बी. एन. लाड यांचाशी सल्लामसलत करून ठरवत असत. कित्येक वेळा संध्याकाळी घरी जाताना ते रिक्षा बोलवत असत. परंतु आपण रिक्षा मागवली आहे हे चर्चेच्या ओघात त्यांना भान राहत नसे, व रिक्षा परत तशीच पाठवायची वेळ येत असे, एवढे ते त्यांचा कामात मग्न असायचे. ते स्वतः व्यवस्थापन कोर्सचा अभ्यासक्रम काय आहे याची माहिती घेत असत. एवढेच नव्हे तर संगणक प्रशिक्षण घेण्याची सुध्दा त्यांची ओढ होती. ते स्वतः गमतीने म्हणायचे, मी सुध्दा व्यवस्थापन कोर्स करण्याचा विचार करीत आहे.

त्यांची ही सर्व तळमळ पाहता विद्या प्रसारक मंडळाच्या कार्यकारिणीने व्यवस्थापन विभागाला त्यांचे नाव देण्याचे ठरविले व त्याचे नामकरण डॉ. वा. ना. बेडेकर संशोधन व व्यवस्थापन अभ्यास संस्था असे ठेवले.

जाता जाता फक्त डॉक्टरांची "महिला बँक" व "सत्कर्म प्रतिष्ठान" या दोन अपूर्ण गोष्टी पूर्ण करण्यासाठी आपण सर्वांनी प्रयत्न केले पाहिजेत व हीच त्यांना खरी आदरांजली वाहिली असे होईल.

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विठ्ठल इसे

माझा ह्या संस्थेशी संबंध ११ वर्षापासुन आहे. सुरुवातीला मी कॅन्टीनमध्ये कामाला लागलो नंतर मॅनेजमेंटमध्ये जागा रिकामी होती असे कळले. तेव्हापासून म्हणजे ९ वर्षापासुन मी ह्या संस्थेत काम करतो. त्यावेळी पार्टटाइम कोर्सला खूप गर्दी होती. परंतु २-३ वर्षांनी हळुहळु मुले कमी व्हायला लागली. १९९८ साली प्रो. लाड आले. त्यानंतर पूर्णवेळ अभ्यासक्रम सुरु झाले. परंतु आम्ही अर्धवेळच होतो. त्या काळात संस्थेत खूप बदल झाले. डॉक्टरसाहेब दररोज संध्याकाळी संस्थेत यायचे. त्यांच्याबद्दल सांगायचे म्हणजे ते आम्हाला साहेब म्हणुन कधी वाटलेच नाही. संध्याकाळी रिक्षा दिसली कि आधी खाली आणायला जायचो. व त्यांचा हात धरुन आणायचे. म्हणले तर ते हात धरू देत नसत. ते म्हणायचे तु फक्त बरोबर राहा. एकदा मी आजारी होतो त्या वेळी श्री लाड सरांनी डॉक्टर साहेबांना फोन करून सांगितले की मी विठ्ठलला पाठवू का? त्या वेळी डॉ. साहेबांनी लगेच पाठवा म्हणून सांगितले. मी गेल्यावर एकही पैसा न घेता मला औषध दिले. व नंतर कितीतरी दिवस तब्यतीची विचारपूस करायचे.

आत तर संस्था खुपच मोठी झाली आहे त्यामुळे आमची जबाबदारी पण वाढली आहे. अशीच संस्था मोठी होऊ देत हीच आमची सदिच्छा!

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सुभाष जगताप

मी ४ वर्षापूर्वी या संस्थेत आलो. तेव्हा सकाळी मी एकटाच असायचो. जेव्हा पी.जी.डी.बी.एम. ची लेक्चर्स असायची. तेव्हा त्या फॅकल्टींना क्लास रूममध्ये जे हवे ते द्यायचो व सकाळी बाहेरची कामे असतील ते करायचो. मला जे समजेल तसे करायचो. आता नवीन पुर्णवेळ संस्था झाल्याने नविन डायरेक्टर साहेब व इतर नविन स्टाफ आले. ऑफीसचे काम वाढले. नविन गोष्टी शिकायला मिळाल्या. आता माझी ड्यूटी डॉक्टर मूर्ती साहेबांच्या केबिन मध्ये असल्याने मला फायलिंगचे, ऑफीसचे काम, इंग्लिश थोडेथोडे शिकायला मिळाले. ह्यापुढे अशीच आपली संस्था मोठी होऊ दे हिच खंडोबा चरणी प्रार्थना !

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अनंत पडवळकर

मी कन्टीन्मध्येच दिवसभर रहायला असल्याने व दुपारी मॅनेजमेंट मध्ये असल्याने कॅम्पस मधल्या सगळ्या कॉलेजमधील सगळ्या लोकांशी माझ्या ओळखी आहेत. तेव्हा मला वाटायचे आपल्याला अशी नोकरी कधी लागेल का? पण डॉ. साहेबांचे स्वप्न साकार झाल्याने आमची पण इछा पूर्ण झाली. व नविन बिल्डिंग झाली आम्हाला चांगली नोकारी मिळाली तसेच आमची जबाबदारी पण वाढली. व काम पण वेगळ्या प्रकारचे झल्याने खुप शिकयला मिळते. आमचे मूर्ती साहेब आम्हाला खुप शिकवतात कधीकधी रागावतात. पण आमची काळजी पण घेतात.♦♦♦

Dr. V. N. Bedekar

प्राचार्य स . वा . गोखले

प्राचार्य स . वा . गोखले
संकुल समन्वयक,
विद्या प्रसारक मंडळ , ठाणे

अन्न, वस्त्र आणि निवारा ह्या मनुष्याच्या तीन प्राथमिक आणि जीवनावश्यक गरजा. अर्थशास्त्रीय नियमाप्रमाणे कोणत्याही गरजा भागवण्यासाठी प्रयत्नांची गरज असते. प्रत्येक व्यक्ती आपापल्या परीने प्रयत्न करीत आपल्या कुटुंबाच्या गरजांचे समाधान करण्याचे प्रयत्न करते. पण हे सर्व प्रयत्न कौटुंबिक पातळीपुरते मर्यादित असतात. ठाणेकरंच्या नशिबाने ह्या सर्व गरजा सामाजिक पातळीवर भागवण्यासाठी सहा सात दशके स्वतः समर्पित करणारे वा. ना. बेडेकर त्यांना लाभले.

कोणत्याही गरजांची पुर्ती करण्यासाठी शारीरीक आरोग्य आणि मानसिक सुदृढता (जे शिक्षण देते) असावी लागते आणि ह्या दोन गोष्टी प्राप्त झाल्यावर नोकरी किंवा व्यवसाय ह्या द्वारे अर्थाजन करावे लागते. डॉक्टरांना ह्या गोष्टीची अचूक जाण असल्याने त्यांनी आपले संपूर्ण आयुष्य, समाजाचे आरोग्यरक्षण, शिक्षण आणि नोकरी व्यवसाय ह्या साठी खर्च केले.

वैद्यकीय पेशा स्वीकारल्याने निरोगी समाज निर्माण करणे ही अंगभूत जबाबदारी त्यांनी स्वीकारली तथापि वैद्यकीय व्यवसाय डॉक्टरांनी धंदा म्हणून नव्हे तर धर्म म्हणून जोपासला. सध्याच्या काळात लोप पावलेली फॅमिली डॉक्टर ही संक्लपना त्यांनी आयुष्यभर राबवली, ह्याची साक्ष अनेक ठाणेकर देतील. नुकतेच एका नाटकात खालील समर्पक संवाद कानावर आला.

एक डॉक्टर शांत बसलेला पाहून त्याचा सहाय्यक विचारतो, काय डॉक्टर काय चाललंय? यावर डॉक्टर उदगारतो, विचारांची प्रॅक्टीस करतोय ह्यावर सहाय्यकाचा शेरा अरे पण सर्व डॉक्टर फक्त प्रॅक्टीसचाच विचार करतात. डॉक्टर बेडेकर प्रॅक्टीसचा विचार करणारे नव्हते तर विचारपुर्वक प्रॅक्टीस करणारे होते.

वैद्यकीय क्षेत्राबरोबर डॉक्टरांनी ठाण्याच्या शैक्षणिक विकासासाठी अविरत प्रयत्न केले. अर्धशतकाहुन अधिक काळ विद्या प्रसारक मंडळाचे अध्यक्षपद संभाळताना डॉक्टरांनी गोठ्यातील शाळेचे पूर्व प्राथमिक, आणि माध्यमिक शिक्षण, मराठी तसेच इंग्रजी माध्यमातुन शिक्षण उपलब्ध असणारी जनमान्य संस्थेत रुपांतर केले. चिखलातून कमळ उमळल्याप्रमाणे ठाणा खाडीच्या दलदलीतून ज्ञानद्वीप निर्माण होण्यामागची खरी प्रेरणा डॉक्टरांचीच, पाचशे विद्यार्थी संख्येने सुरू झालेले स्थान, आज पंधरा हजारांवर विद्यार्थ्यांना कला, वाणिज्य, विज्ञान, विधी, तंत्रज्ञान, व्यवस्थापन, लायब्ररी सायन्स इत्यादी विविध विद्याशाखांचे पदवी व पदव्यूत्तर पातळीवरचे ज्ञानदान केवळ ठाण्यातीलच नव्हे तर पूर्ण महाराष्ट्रातील एक आघाडीचे ज्ञानसंकुल बनले. ही किमया डॉक्टरांच्या दूरदृष्टीची आणि अविरत कष्टांची.

सहकारक्षेत्र आणि विषेषतः सहकारी बँकांबद्दल एकूण जनसामान्यात अविश्वासाचे वातावरण असणार्या काळात ठाण्यात आणखी एक सहकारी बँक स्थापन करणे म्हणजे काहींच्या मते वेडेपणाच होता, पण विशिष्ठ उद्दीष्टांनी प्रेरीत झालेली वेडी माणसे असल्याशिवाय समाजाची प्रगती होत नसते. अत्यल्प भांडवल आणि ठेवी ह्यांच्या पायावर सुरू झालेली ठाणे भारत सहकारी बँक उण्यापुर्या पंचवीस वर्षात एक आघाडीची बँक झाली आहे. ह्या बँकेने अनेकांना रोजगारप्राप्त करून देताना त्यांच्यातील उद्यमशीलतेला अर्थाची जोड दिली.

एवढे सर्व करूनही त्यांचे आपल्या सहकार्यांना देताना डॉक्टरांच्या विनम्रतेची आणि उत्तुंगतेची साक्ष पटते. योग्य माणसे पारखून त्यांना आपल्याबरोबर घेऊन कार्य करणे ही गोष्ट सगळ्यांना साधणारी नाही. चणीने लहान पण कृतीने हिमालयाची उंची असणार्या ह्या व्यक्तीने ठाणेकरांचे आयुष्य समृद्ध केले. निसर्ग नियमाप्रमाणे डॉक्टर देहाने आज आपल्यात नसले तरी त्यांचे विविध क्षेत्रातील कार्य, दीपस्तंभाप्रमाणे येणार्या अनेक पिढ्यांना मार्गदर्शक ठरेल.

द्वितीय स्मृतीदिनाच्या निमित्ताने, त्यांचे कार्य त्याच निष्ठेने चालवण्याची शपथ हीच त्यांना खरी श्रध्दांजली.

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माणासांशी माणसासारखं वागणारा माणुस

मोहन पाठक

तयाचा वेलु गेला गगनावरी च्या संपादनाचे काम पुर्ण झाले होते (कै) गुरुवर्य स. वि. कुलकर्णी यांची प्रस्तावना आणण्यासाठी मी, मा. करंदीकर साहेब व (कै) टिल्लू साहेब स. विं. च्या घरी गेलो होतो. (कै) स. विं. नी अतिशय सुयोग्य प्रस्तावना ग्रंथाला दिली. त्यानंतर माझ्या व टिल्लू सरांच्या बोलण्यात डॉक्टर साहेबांनी आशीर्वादापर का होईना काही लिहावे असा विचार आला. कै. टिल्लू सर त्याप्रमाणे कै. वा. ना. बेडेकरांशी बोलले. पण त्यावेळी (गोष्ट १९९६ सालातील आहे) (कै) डॉक्टरांना काहीसे बरे वाटत नव्हते. टिल्लू सरांनी मला हे सांगितले त्यावर आम्ही दोघांनी डॉक्टरांना भेटू या असे ठरवले. एरवी दिवाणखाण्यात गेल्या २०-२५ वर्षात माननीय डॉक्टर साहेबांना मी अगणित वेळा भेटलो होतो. पांढरे शुभ्र धोतर नेसून झपझप चलणारी त्यांचि दिवाणखाण्यातील मूर्ती मनात होती. त्यावेळी प्रथमच मी डॉक्टरांच्य आतल्या घरात गेलो. डॉक्टर लगबगीने उठले. पलंगावरचे कागद बाजुला सारत हसतमुखाने आम्हाला बसा म्हणाले."अचलकुमार तु फार चांगले काम केलेस" असे म्हणत त्यांनी आमच्या इतिहास संपादनाचे कौतुक केले. टिल्लू सरांचा स्वभाव नम्र, संकोची होता."पाठकांनी मदत केली म्हणुन हे झाले" अशी प्रतिक्रीया त्यांनी व्यक्त केली. मी म्हणालो, "डॉक्टर साहेब, एक चार ओळी आशीर्वादपर आपण द्याव्यात अशी इच्छा होती" मला म्हणाले" तुम्ही लिहून घ्या, सर्व झाल्यावर सही करतो. मी डॉक्टरांचे शब्द उतरवून घेतले. त्यातील माझा उल्लेख हा मात्र आनंद देणारा तर वाटलाच, पण विद्याप्रसारक मंडळाने केलेल बहुमान वाटला. मी आणि टिल्लू सर जेमेतेम अर्धा तास तेथे होतो.

आज डॉक्टरसाहेब नाहीत, टिल्लू सरही नाहीत पण "तयाचा वेलु गेला गगनावरी" च्या संपादनातील अक्षरशः असंख्य आठवणी मनात आहेत. आपल्या संस्थेतल्या लहानातल्या लहान कार्यकर्त्यांच्या, कर्मचार्यांच्या धडपडीबद्दल असणारी आस्था ही डॉक्टरांचा मोठा विशेष होता.

शिक्षकदिन, भावे व्याख्यानमाला या काही प्रसंगाच्या वेळी स्टेजवरुन उतरताना, चढताना त्यांना मी काही वेळा त्यांच्या अखेरच्या वर्षात हात आधाराला दिला, त्या क्षणीही डॉक्टरांनी आपल्याल बोलावले याचा अभिमान मनात दाटून यायचा.

डॉ. वा. ना. बेडेकर यांच्या आठवणी हे माझ्या लहान आयुष्यातल एक महत्त्वाचे प्रकरण आहे. माणसाने माणसाशी माणसासारख वागावं अस संतमंडळी सांगतात आमच्या डॉक्टरांचे ऋषीतुल्य, अधिकारी व्यक्तिमत्त्व होते हे खरे, पण संतांच्या शिकवणी प्रमाणे माणसाशी माणसासारखं कसं वागायचं याचं आदर्श उदाहरण होते. डॉक्टरसाहेब गेल्याला आता दोन वर्ष होताहेत, पण एकही क्षण त्यांच नसणे स्वीकारायला मन तयार नाही. नौपाड्यातुन जाताना, महाविद्यालयात आता मोठे डॉक्टर भेटतील अस वाटत राहते. तुमच ऋण इतक मोठं आहे, या जन्मी फिटणार नाही.

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Down Nostalgia Lane

Deepak Gokhale

Past

Dr. V. N. Bedekar Institute is into management studies for some time now. It started on 3rd July 1973 and was called as Department of Management studies. It was a sapling planted by Dr. V. N. Bedekar who had dreams of making Thane a hub of management education par excellence. The department was inaugurated at the hands of Shri Sharu Rangnekar. The only other management institute was Jamnalal Bajaj Institute of Management Studies (JBIMS). In 1977, The Diploma in Business Management (DBM) and Diploma in Industrial Management (DIM) were discontinued and a Diploma in Management Studies (DMS) was launched.

The office bearers of the then Managing Committee are shown below:

Dr. V. N. Bedekar	President
Shri D. W. Tillu	Vice – President
Shri P. Savalaram	
Shri R. K. Gokhale	Treasurer
Shri M. N. Patil	Secretary
Shri L. G, Deo	Joint -Secretary
Shri G. N. Joshi	(Chairman) Member
Dr. N. K. Pendse	Member
Shri K. V. Pethe	Member
Shri D. B. N. Kharde	Member
Shri J. G. Gogate	Member
Shri P. A. Kanade	Member
Shri S. V. Marathe	Member

In the mean time, due to the jurisdiction issue, VPM's Institutions, which were earlier under Pune University, were brought under the umbrella and control of University of Bombay.

Besides the recognised courses of the University of Bombay, Department of Management Studies also conducted certificate courses in D.B.M., Operations Research, Quality control, Cybernetics. The department also applied for additional need based Diploma courses in Management to the University of Bombay.

The total number of students in 1982 for management studies were 237. The teaching and non teaching staff were 47 and six respectively.

The Institute has seen several heads from time to time.

Period	Name	Designation
1972 - 1977	Shri Godbole	H.O.D.
1977 - 1982	Shri Dutta	H.O.D.
1982 - 1987	Shri Gowande	H.O.D.
1987 - 1990	Shri S. R. Tendulkar	H.O.D.
1990 - 1995	Shri S. W. Gokhale	H.O.D.
1995 - 1998	Shri B. V. Date	Director
1998 - 2003	Shri B. N. Lad	Director

On 23rd Nov. 1997 Shri U. B. Joshi (invitee) and Dr. V. V. Bedekar were elected on the advisory committee of the Institute. The institute was named as Institute of Management Studies.

Dr. V. N. Bedekar strived to start the MMS (Master in Management Studies) course at the institute, but paucity of funds prevented from geting the AICTE approved MMS course affiliated to Mumbai University underway. Undaunted, other autonomous part time Management courses were initiated to cater to the needs of the students/ executives.

Dr. V. V. Bedekar, fulfilled the dreams of his father, Dr. V. N. Bedekar in the academic year 2005-06. His drive and leadership resulted in the institute getting approval from AICTE to conduct the two year full time Master of Management Studies course.

I came into the association of the institute from the year 2000. To start with I was entrusted with the job of counselling students for various management courses. There was a two years full time post graduate diploma in business management along with the other part time one year diploma courses. The response to the two years full time postgraduate diploma was not encouraging. Student fraternity were more attracted by the one year part time courses in management. I was asked to concentrate on the full-time post graduate diploma. The institute was also run on part time basis due to paucity of funds.

I was instructed to attend the institute from morning till the part time staff took over. I was to attend to the inquiries on the telephone as well as attend to the persons who would drop by for information of the management courses. Being schooled in an convent school and marketing background helped me to provide solutions. The institute also started advertising the course through newspaper and participating in career fairs. This gave us certain confidence. The advertisements and career fairs started an influx of inquiries. Prof. B. N. Lad who was at the helm of affairs took keen interest in personally attending the inquiries, whenever possible. We were elated when around forty students participated in the entrance exam. We could select around twenty five (25 nos.) students for first year of 2 years full time programme.

Then onwards we planned a marketing strategy to further propagate the course in the colleges of nearby suburbs. We initiated the process by meeting the respective principals of these colleges. Through their permission we started to conduct seminars in their premises. This process continued till the year 2004 and ensured an inflow of minimum twenty five students every year for the course. All this could not have been made possible without the help of all the staff members. The faculty and staff sacrificed their salaries, to help the institute improve its infrastructure and facilities.

The vision of Dr. V. N. Bedekar gave a impetus to the movement of management in Thane. He was always available for imparting valuable guidance, a patient attitude and a smile on his face. He was approachable by all at any time of the day. He was helpful to all the needy and deserving students.

Present

As the past had been arduous, the present gives a ray of hope, Dr. V. V. Bedekar is a man of steely determination, and has the intellect and resources to take the masses along. His determination and the vision of his father Dr. V. N. Bedekar have borne the fruits of success. The AICTE (All India Council for Technical Education) gave us the nod to initiate the MMS Course, on 30th June 2005. This was made possible by contribution and help of Prof. D. K. Nayak (Principal, of Polytechnic Institute), Prof. V. S. Bhakre, a management consultant and visiting faculty, in coordinating with the AICTE at Delhi and Mumbai.

All these hectic activities were coupled with the search of a leadership for the institute. We were lucky to get the consent of Dr. Guruprasad Murthy, an eminent and well known scholar in management, and associated with JBIMS for nearly three decades, since its inception. The name of the institute has been changed from Institute of Management Studies to Dr. V. N. Bedekar Institute of Research and Management Studies and its abbreviated version is Dr. VN BRIMS.

Guidance of Dr. Guruprasad Murthy, is expected to help the Vidya Prasarak Mandal and all associated with them, to realise their cherished dreams and objectives.

The admission process of the MMS course started with enthusiasm and was completed in record time. Dr. Guruprasad Murthy took pains to educate all the staff members of all the procedures involved in the admission process. Once this admission process got over, the compliance reports from governing bodies like Directorate of Technical Education (D.T.E.) was obtained.

The Institute's ambition to initiate other courses being strong, the endeavour to start the post graduate programme in Agriculture Management has met with a good response. Firstly, we have on board of Agriculture Advisory Committee a eminent scientist Dr. V. R. Gadwal, student of world renowned scientist Dr. Swaminathan, who ushered the "GREEN REVOLUTION" in India. Under his guidance we got the support from Maharashtra Chamber of Commerce, Industry and Agriculture. Their support has helped us to initiate talks with the Dapoli University of Agriculture. Their assurance in giving all the necessary support was heartening. We now look forward to begin the course in the academic year 2006-2007.

The institute has also secured permission from Maharashtra State Board of Technical Education (M.S.B.T.E.) to start Post graduate Diploma in Business management (PGDBM) a two year full time course and one year full time course in Post graduate Diploma in Pharmaceutical Management (PGDPM). Both the courses can accommodate sixty (60) candidates. The other formalities are being completed to get the courses started in the academic year 2006-07. The institute has also a part time, week end 18 months course in management (E MBA – Executive's Master in Business Administration) for the working executives. This course offers majors in Finance, H.R., Marketing.

Future – Vision and Mission

The Vision of Dr. V. N. BRIMS, is to be amongst the Top Management Institute in the country. This would be achieved by becoming a world class centre of Excellence in learning and innovation driven by social sensitivity and state of art technology.

Our mission statement of becoming one of the best Business school in the near future will be realised by the good wishes, support and blessings from all.

We look forward to start distance education programmes by the academic year 2006-2007.

The future seems brighter. The tasks and responsibilities are going to increase manifold. It is an opportunity for growth, to all associated directly and indirectly with the institute.

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Vision, Mission Objectives of Dr. VN BRIMS

VISION

"To be amongst the top management institutes in the country"

MISSION

"To propogate knowledge to society to the best of our ability"

OBJECTIVES

"Attaining best possible ratio of Results to Resources"

"Be a Leading Learning Centre to Cater to the needs of Society"

"Provide quality supply of human resources to clients in particular and society in general"

"Provide satisfaction – nay delight to all stakeholders"

"Build good and patriotic posterity with global hearts and local peripherals"

An Overview of Dr. VN BRIMS

Rajagopal S. Iyer

The Institute

Dr. VN BRIMS building is prominently located in the VPM's Jnanadweepa sprawling campus. The available rooms are given in the table below:

Description	Capacity	Total	Floor
Class Room	60	2	First
Tutorial Room	30	2	Third
Conference Room	30	3	Second
Library	54	1	First
IT Centre	48	1	Third
Girl's Common Room		1	Ground
Boy's Common Room		1	Ground
Sports Room		1	Ground
Auditorium	120	1	Ground
Directorate Rooms		2	Second
Staff Room		1	First
Storage Room		2	G, 2^{nd}
UPS Room		1	Ground
Campus Xerox Shop		1	Ground
Faculty Cabins	2	8	Second
Pantry		3	G, 2^{nd}, 3^{rd}

It is designed to accommodate about 200 students at a time. Every lecture, conference and tutorial room is equipped with multimedia projection and screens. Many of the above rooms are air-conditioned

Library

The Dr. VN BRIMS library has over 5300 books, subscription to over 70 National and International Periodicals, online database of articles of British Council and American Information Society and various academic journals. It has also collected relevant URLs (Universal Resource Locator or website addresses) which are made available in a webpage. The library has a reading hall capable of seating 54 persons. There is a software known as OPAC (Online Public Access Catalogue) for searching library catalogue. This software is being continually upgraded for more functionalities and features.

Information Technology Facilities

The IT Infrastructure consists of switched 100Mbps LAN (Local Area Network) within the building with ample network access points throughout the building. This in turn is integrated with the campus wide fibre backbone with a gigabit connection.

All the IT Equipments and some of the lights, fans are powered by two UPSs (Uninterruptable Power Supply).

A unique feature of the institute is that for primary, day to day computing is served by a binary cluster of Linux servers with thin-clients on the desktop. Every faculty member and staff have a thin-client desktop. Shri Koustubha Kale, Director, Anant Corporation, burnt midnight oil to get the whole setup running. Shri Kaustubha M. Kale is an alumnus of VPM Polytechnic.

Another unique fact which has to be mentioned here is that the entire network of the building was done by the in-campus team of hardware engineers under the able leadership of Shri. Dalvir J. Reel, Server Room Incharge.

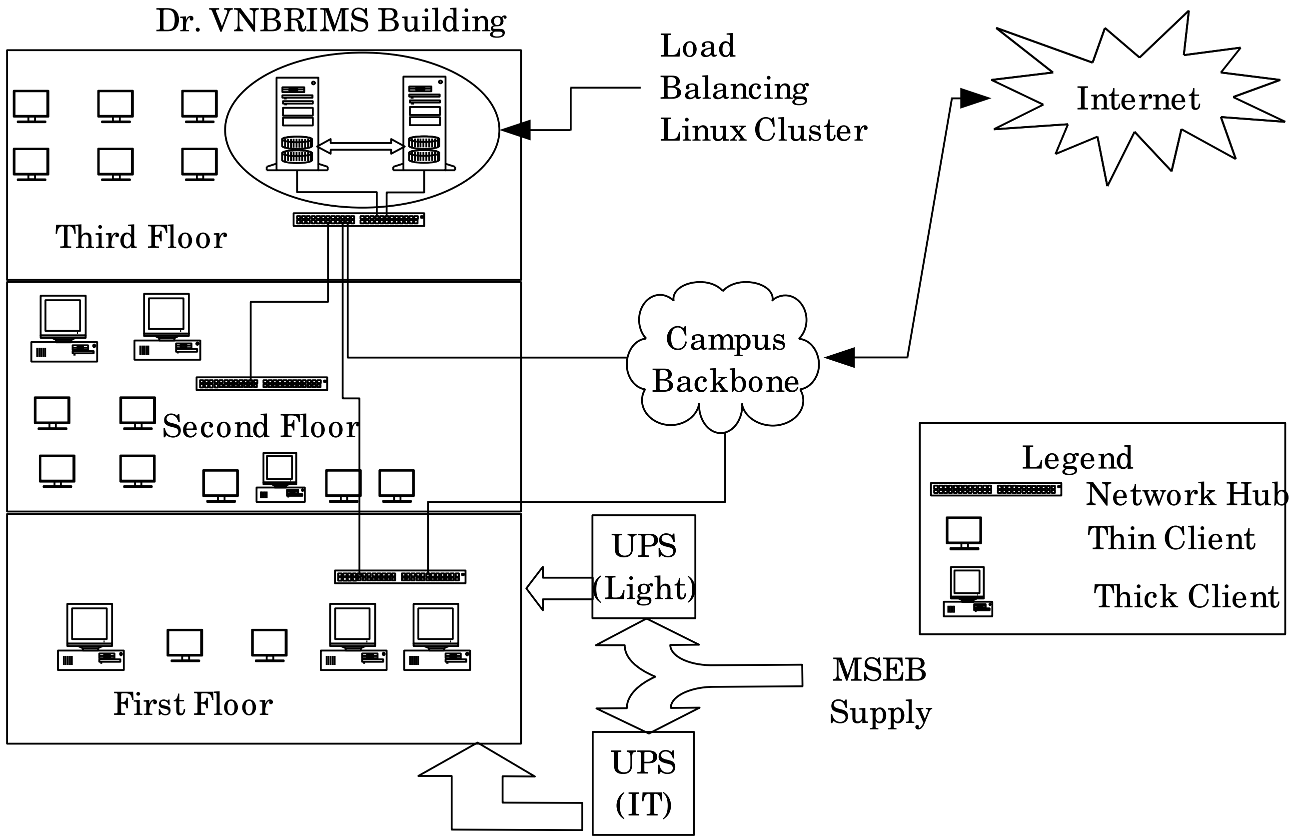
Dr. VN BRIMS Library is also equipped with thin-clients for research work.

On the software side, Openoffice.org, a FLOSS (Free, Libré, Open Source Software) is used for office automation tasks such as correspondence, Presentations, Spreadsheet applications.

In addition to the above there is a groupware, survey/questionnaire preparation and hosting application is provided.

Other software available: Tally accounting software, CMIE prowess database, SPSS – for statistical analysis.

IT Infrastructure at Dr. VN BRIMS



The IT set-up is designed keeping in mind to give the students an dual exposure to both nominal commercial software environment and an alternate, robust, high availability, high performance computing environment which can be replicated at their future-workplace or at their residence.

Another important factor is the fact that usage of high quality FLOSS for various purposes helps keep the TCO (total cost of ownership) very low compared to other proprietary solutions which are expensive.

Broadly, the cost components of any IT project consists of Hardware Cost, Software Cost, Training Cost, Hardware Maintenance cost, Technical cost Licence management cost, Software Upgrade Cost etc.

A more detailed and objective article on FLOSS can be found at the URL: http://www.dwheeler.com/oss_fs_why.html.

A very important fact that should be remembered here is that when one pays for the software, one actually pays for the licence and the legal status of the payer is that of a lessee and not owner. The software is owned by the Company which writes it.

A document that identifies the TCO Factors can be found at the URL:

http://www.csc.com/features/2004/uploads/LEF_OPENSOURCE.pdf.

The Cluster

The main cluster at Dr. VN BRIMS consists of two identically configured servers. Each of the cluster member server is equipped with Dual Opteron CPU and 8 gigabytes of memory. Each of them have two 120GB hard-disks. Which are connected in RAID (Redundant Array of Inexpensive Disk) Configuration. Within the server box, the two hard-disk contain exactly the same data thus providing fault tolerance. The two cluster members are connected through a dedicated 100Mbps link to synchronise the data amongst themselves (DRBD). This level of redundancy ensures that user generated data is available in one of the four disks. Of course, it means that for the price of four disks, storage capacity of only one disk is available. But most importantly, a single server/disk failure does not mean that the data is lost or computing services is unavailable. Another paper in this volume addresses the details of the Architecture.

Operations

Different types of problems had to be addressed during the operation of this setup in the last six months. Some of them were:

- Late commissioning of UPS
- Disruptions due to activities relating to infrastructure
- User uptake of technology
- A general unknown fear of new platform and a doubt whether it will deliver
- Shared printing

It must be put on record that the phenomenal support, eagerness, patience and willingness to learn by the users of the system has resulted in smooth adoption and operation of the IT setup. The support and service of the in-campus hardware support group has been very prompt and always with a smile.

Other Activities

The IT Centre has been used for conducting Workshop, Orientation courses, Tally training program for Students.

The centre has formulated policies and procedures for IT related activities for Internal IT Processes (procurement, inventory control, System and network administration) and End user related Processes (logging of complaints, usage of equipments, various Check-lists etc.). It is in the process of defining Quality norms.

Future

There are many areas IT can contribute significantly to the Management education. Now that the teething problems are fairly under control, IT centre will be working towards being one of the profit centre of the Institute. It has the unique strength of having a good portfolio of open-source application. Open source is already making a dent in the world market. Increased uptake of open source solutions in the corporate world is continually happening. This will spawn a requirement of training in open source solutions. It is here that the IT infrastructure at Dr. VN BRIMS has a definite edge as a predeployment test-bed, proof of concept etc. It can at take up consultancies for setting up Comprehensive IT setup for small and medium enterprises. There are many untapped avenues in this regard.

As the World of business shifts it's focus from manufacturing to services in the paradigm of knowledge economy, effective IT usage becomes indispensable.

In alignment with the Vision-Mission statement, IT Centre at Dr. VN BRIMS will strive towards meeting the future Technological and Operational challenges head-on and bring out lasting, economical and practical solutions to elicit delight of its stakeholders and society at large.

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Information Technology at Dr. VN BRIMS – An Architectural Overview

Koustubha Kale

Introduction

This document describes the architecture and capabilities of the information technology platform at Dr. V. N. Bedekar Institute of Research and Management Studies. It discusses.

1. Policies laid down prior to commencement of design.
2. Requirements taken into consideration at design time.
3. Architectural overview and capabilities provided.
4. Implementation details.
5. Future growth plans.

Policies

Dr VN BRIMS is the latest addition to Vidya Prasarak Mandal's array of educational institutes. Dr VN BRIMS came into being under the visionary guidance of Dr. Vijay Bedekar, Chairman VPM, in the midst of an existing rich well laid down IT infrastructure at 'Jnanadweepa' the campus housing VPM's other colleges at Thane.

Thus Dr VN BRIMS inherited some of the policies and capabilities of the campus IT setup. Chief among those were the policy of leveraging Open Source Software (OSS) and utilizing the campus wide network backbone, campus wide web based Institute Management software, campus wide Library Management Software etc.

Other policies decided upon were:

- The setup has to provide uninterrupted service. Single point of failures have to be avoided.
- The architecture has to be inherently immune to threats from both within and outside. Threats such as viruses, data loss due to hardware/ software failure have to be addressed at design time.
- Issues relating to authorization and access have to be considered.
- Ease of maintainability and upgradability.
- Resources have to be used optimally. Resource pooling.

Requirements and design rationale

As per the broad guidelines of the above policies, following generalized requirements and design decisions were drawn up:

- In order to allow for uninterrupted service, we had to consider power availability, hardware failures, network failures. We decided to provide UPS power backup and redundancy in computing, networking equipment and even in the network wiring backbone within the building.
- In accordance with the policy of leveraging OSS and drawing upon its inherent strengths of stability and security, we decided to implement everything on the Linux operating system platform.
- It was the most crucial decision allowing us to eliminate common security threats such as viruses and worms. Also to implement advanced concepts such as server clustering and data mirroring.
- All this at no cost allowed us to utilize our budget on providing better physical infrastructure. A comparable installation to the one presently provided at Dr. VN BRIMS based on commercial operating system and software would have effectively doubled our IT infrastructure costs.
- In order to enhance maintainability and better utilization of compute resources, we took the major decision of implementing Thin Client Architecture.
- Thin Client technology has tremendous advantages over standard desktop computers. In thin clients there is no local data storage. The thin client computer has only an adequate

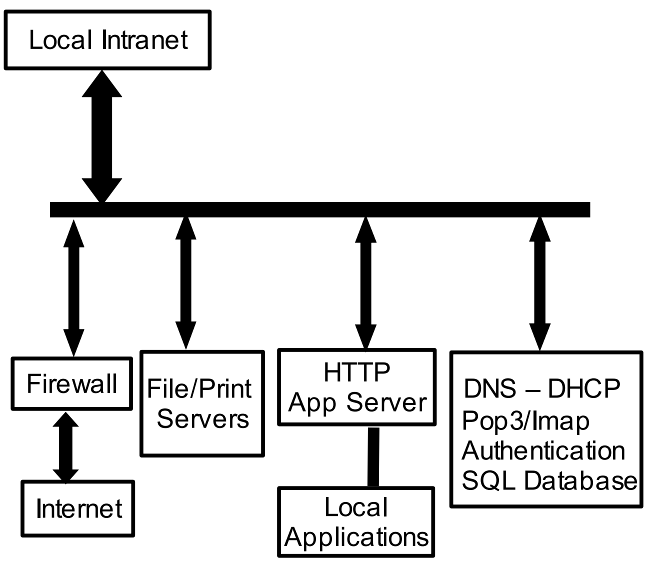
processor and memory inside. When started, it contacts the central server and downloads the required operating system, configuration settings and software to do its job. Thus although the user is working like a normal desktop computer user, in case of thin clients the actual data processing and storage is taking place at the central server.

- This architecture provides us with advantages like low cost of the thin client hardware; centralized data and software on the server making for easy maintainability and upgradability.
- The use of Linux operating system also allowed us to implement the laid down policy of authorization and access control. Linux has inbuilt capability of defining which user or a group of users has access to what resources such as printers, files etc.

Architecture and Capabilities

Figure 1 describes the typical setup in an institute or an enterprise.

Figure 1



In this typical setup all clients are normal desktops with local hard disks for data storage.

Here as the user data is spread out among the local area network it is very difficult to provide data security.

As each user has access to his computer it is impossible to control what software he/she installs and how he/she utilizes the computer. Also it is difficult to implement access control mechanisms.

In an educational institute where students access computers, it is impossible to assign a fixed seat to every user. The above implementation would become impossible to maintain in short period due to the fact that users data will become spread out over several computers unless a centralized data storage is provided.

These disadvantages and also the higher cost of a traditional desktop computer were the primary reason we decided to implement a Thin Client architecture.

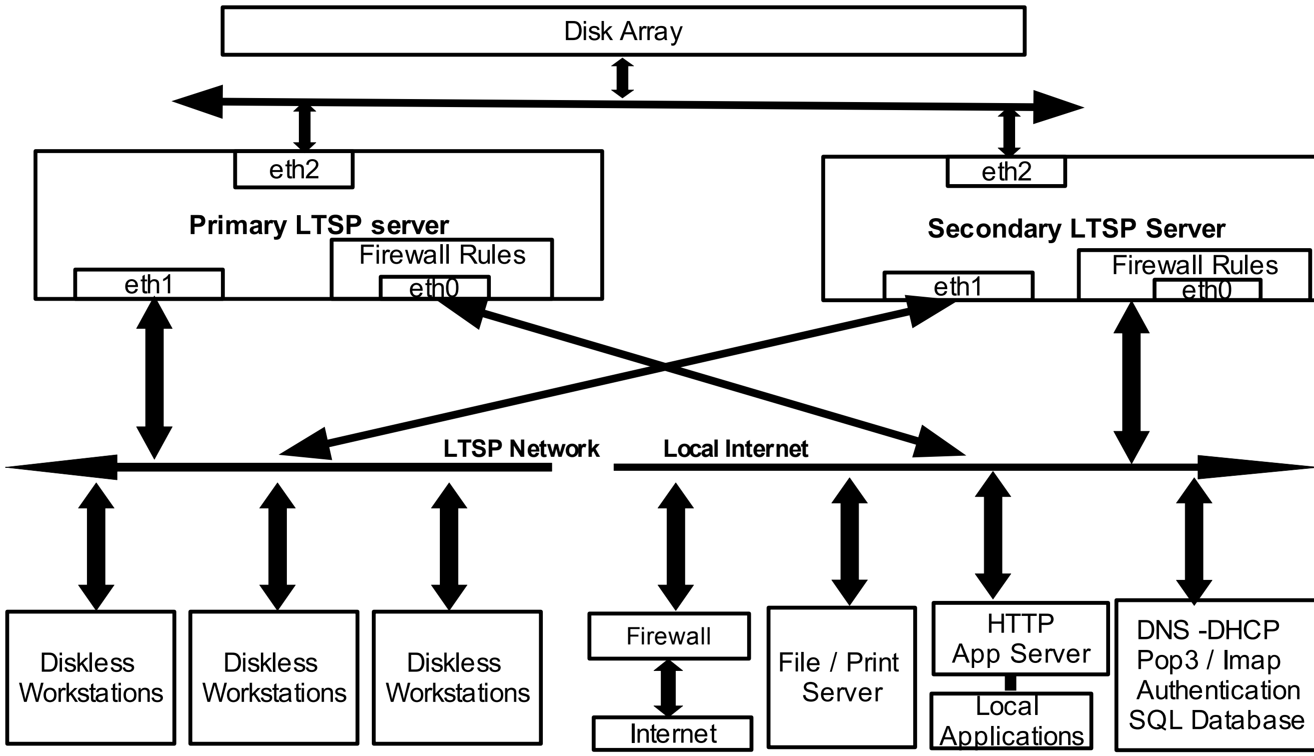
Thin Clients provide following advantages over traditional desktops..

- Clients Boots Fast
- No local data or applications to install
- Completely centralized management
- All data and applications held centrally enabling easy backup and security
- Software and hardware upgrades done in the servers, not at every desktop
- Hard-disk NOT required.
- Low Hardware required at the Node end.
- The node will never require an upgrade as upgrading the servers effectively upgrades the thin client node.
- Very low maintenance required.
- No virus problem.
- No disk problem
- You don't require keeping driver Cd's of all the Hardware on the nodes.
- Very, very low down-time.
- In standard PC, If a node with hard-disk fails, it might require at least 3-6 hours to get it started again. In thin clients you can simply replace it as all his data and settings are on the servers.
- Users can sit at any desktop and still have their own settings on any machine.
- It is much easier to implement access control policies as all setting only need to be done at the servers and the users can not change any settings.

In traditional client server implementations, the server makes for the most obvious single point of failure. In order to avoid this and to provide load balancing capability with room for growth, we decided to implement a server cluster right at the start.

A server cluster as shown in Figure 2 has multiple servers providing same services to their clients in this case our thin clients. In case of failure of one server the other server takes over the clients of the failed server. This makes for a highly redundant, fault tolerant setup

Figure 2



In the above picture the Local Intranet part is the existing IT infrastructure of 'Jnanadweepa' the VPM complex.

In order to make the changes made by the user while he/she was in session with the failed server available to the other server we must ensure that the data storage is replicated across both servers. In our setup the disk array is doing this function. In order to avoid the very very high costs of a Storage Area Network which provides this functionality in large data centers, we implemented this with two large size disks inside each server which are mirrored onto each other and are in turn mirrored between the two servers. This complex setup provides us with four way data redundancy.

Noteworthy is the fact that all this functionality has been implemented with open source software freely available for the Linux operating system. A similar setup with a commercial operating system would have cost us in excess of lakhs of rupees just for the server software costs and the client desktops plus the servers client access licenses would have set us back by a few more lakhs.

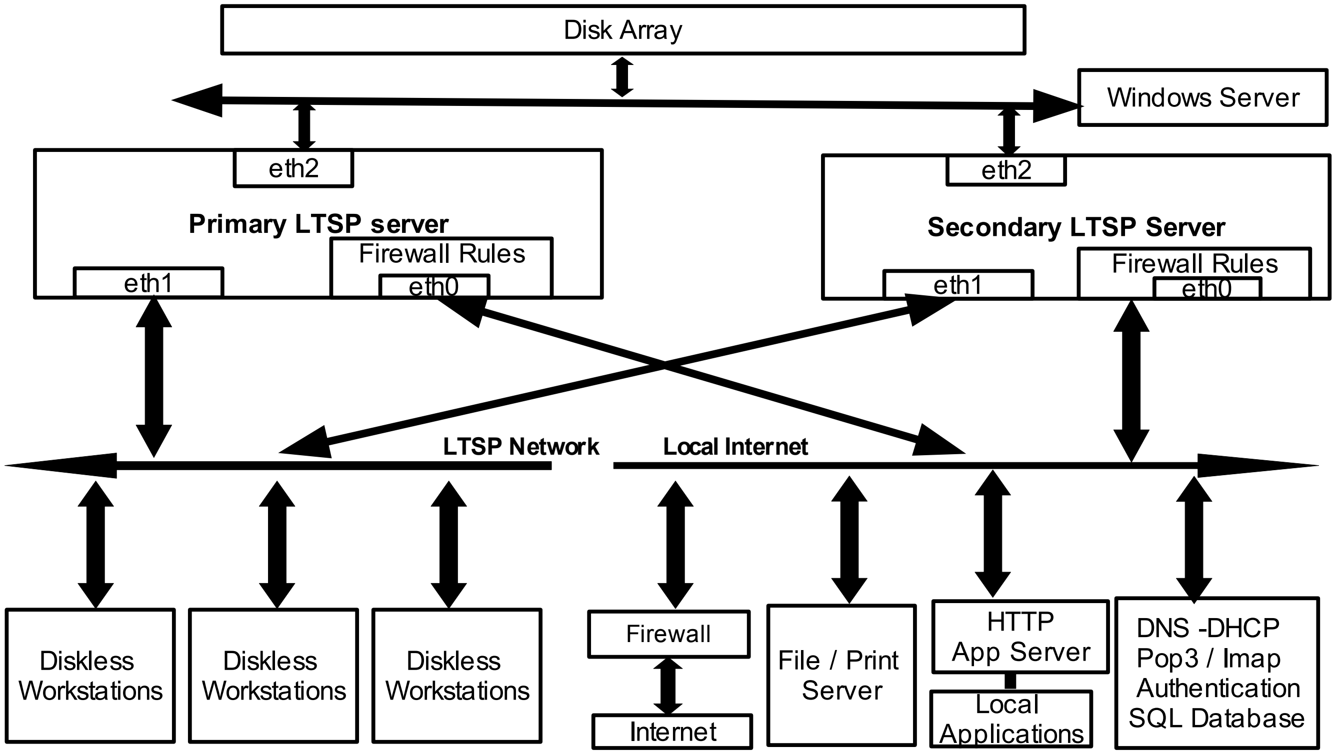
All the networking backbone has also been laid double with Gigabit network cables and switches. This provides for redundancy in case of network failures.

Access to the Campus It network is also redundant.

Two separate UPS systems have been installed one for the computers and the other for the lights, fans etc.

While we have implemented our setup with the Linux operating system with user desktops also Linux, being an educational institutes has inherent unpredictable usage patterns. We have some requirements of Microsoft Windows only for software such as Tally, SPSS. In order to accommodate this requirement of MS Windows based software, we have provided a third server with Microsoft Windows installed on it. In addition to the required Windows only software, this server also runs the Windows Terminal Service. This service allows all our Linux based Thin Client desktops to access any windows based software installed on the Windows server simply by double clicking an icon on their desktop. This is described in Figure 3.

Figure 3



Thus the setup provides for the following capabilities:

- Thin Clients for users.
- Dual server cluster in a fail over and load balancing configuration.
- 64 bit computing platform. Future ready.
- Four way redundant data storage servicing both the servers simultaneously.
- Inbuilt data protection.
- Protection from common threats such as viruses and worms.
- Inbuilt access control.
- Capability to access both Linux and Windows based software from the same Linux desktop.
- Resource pooling with shared network printers with proper access controls.
- Free high speed access to campus intranet and Internet 24x7.

Implementation Details

The implementation was done with following hardware.

- AMD Opteron 64 bit CPU based dual processor servers with 8 GB RAM each.
- Servers run Fedora Core 3 64 bit Linux Operating System.
- SATA hard disks two each for the two servers. These disks are mirrored on to each other inside the server and additionally they are mirrored across the two servers using a dedicated networking link using DRBD block replication for instantaneous data replication across the network link.
- Gigabit network switch and backbone with redundant cables.
- AMD Opteron 64 bit CPU based dual processor server with 8gb RAM installed with Microsoft

Windows Operating system to run Windows only software.

Following software are used in day to day business of the institute.

- Open Office software suite with spreadsheets, document writer, presentation and database components.
- Firefox web browser.
- Various text editors, mail clients etc.
- On the windows server we have Tally accounting and inventory software
- SPSS statistical analysis software.

The VPM campus has a campus wide web based Financial Accounting, Payroll, Student database, Library management software. These are installed in the main campus server room and are accessed via the campus intranet.

Intranet website, Internet access and mail etc services are also provided by the VPM campus network and are provided through the main server room in the campus.

Future Growth

The current setup has been sized with the view that from June 2006 as the second batch starts our user base will be effectively doubled. As such we are adequately covered for the immediate future.

Any further capacity addition can be easily achieved by addition of more servers to the cluster. However this would require us to change the data storage from internal to the servers to an external standalone data store providing data storage service to all the servers in the cluster. This step is any way expected as with the growth in the user base we will eventually run short of storage capacity.

It is also planned to provide for archival type data storage like tape backup for the more critical data and implement an automated backup strategy.

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Thane Management Scene

Y.B. Bhide

Shreesthanak – A Brief Background

Shreesthanak i.e. Thane, is a city of lakes and is on the outskirts of Mumbai Metropolis. It has Yeoor forests on one side, Parsik hills on the other side and has a beautiful creek almost surrounding it. It has KDMC, Bhivandi, Navi Mumbai, Panvel, Ulhasnagar, Mira Road to Virar belt surrounding it. This part of Mumbai region roughly accounts for a population of 2 crores.

It has financial and commercial capital of India viz. Mumbai Metropolis on the one hand, large industrial estates of Wagle, Thane-Belapur road, Dombivali and Ambernath on the other and the textile town of Bhivandi just the next door. It also has IT and IT enabled establishments in Powai (Mumbai), SEEPZ (Mumbai), Mahape, Vashi and DAKC (Dhirubhai Ambani Knowledge City), and such other places near to it.

It being the district head quarters of Thane district, also has the whole district of Thane with huge rural population and a beautiful countryside.

It is a historic town with a history of around thousand years, having served as a capital for a few kings, as a good sea port and as a centre for international trade and a town that has participated wholeheartedly in India's freedom struggle and in the post 1947 socio-economic political progress

Thane and Management Science

Development of management practices on modern lines may be of recent origin. But eternal management principles and practices are age old. One has only to look at the great cities of yester years or the arrangement of armies in epic wars like that in Mahabharata or the working of great universities like Takshashila and Nalanda, great religious establishments like Vatican or Shankaracharya's mutts and the management of famous kingdoms of Guptas or Mughal Kings like Emperor Akbar to be convinced about the existence of excellent management principles and practices. One has only to look to great thought books like Kautilya's Arthashastra to imagine how our forefathers thought deeply about managing everything optimally.

Likewise an ancient and a great city like Thane has not existed and prospered over centuries without knowing the essence of the art and science of management. Town planners who thought of such a large number of lakes all over Thane must have thought of their value addition to the lives of its citizens, their potential for water supply, irrigation, climate control and their aesthetic value. District administration of such a large district with 13 tehsils cannot be smooth, efficient and effective without proper planning, effective organizing, forceful direction and careful control. Entrepreneurship and intrapreneurship of businessmen and managers working with them need to be similarly acknowledged. Management of educational institutions, functioning of courts, the central jail, the civil hospital or the first railway establishment to touch Thane are evidences of existence of sound management thinking and practices in these establishments.

Modern Management Scene

India witnessed a boost to its industrial development due to the push given in our Five Year Plans. While the First Five Year Plan was an effort in consolidation and creating a base for more effective planning in future years, successive plans till the eighties gave emphasis on industrial and agricultural development.

Thane also witnessed this change and had significant industrial establishments e.g. Wagle Industrial Estate, Thane Belapur Road Industrial Estate surrounding it. Mulund and Bhandup also had industrial undertakings of Johnson and Johnson, Rallis, Richardson and Crudas, GKW, etc. Similarly Dombivli, Ambernath, Murbad and Palghar – Bhoisar belt had thriving MIDC industrial estates. They employed professional managers and thousands of skilled and semi-skilled workers and supervisory staff.

They also faced industrial management problems that were typical of those days. Protected and closed economy that India was also created inefficiency and wastages, excessive costs and easy profits. And yet modern professional management egged them to improve production, cut costs, curtail inventories, ensure industrial safety, expand markets, improve employer-employee relations and look after human resource development.

Organisations like Thane Manufacturer's Association (TMA), Thane Small Scale Industries Association (TISSA), Bombay Management Association (BMA) and management training institutes like Jamnalal Bajaj Institute of Management Studies (JBIMS) at Bombay and VPM's Institute of Management Studies, Thane brought the entrepreneurs and managers together, allowed them to have exchange of views and experiences, share knowledge and learn from each other. They also conducted management training programmes. There were long term programmes as per Mumbai University syllabus and guidelines conducted by JBIMS and IMS. Short term training programmes, seminars, workshops and conferences, industrial visits, case discussions, etc were arranged by BMA, TMA and such other bodies.

VPM's Institute of Management Studies

It was really Thane's fortune that VPM's Institute of Management Studies (now renamed as Dr. V.N. Bedekar Institute of Research and Management Studies) was launched in 1973.

Vidya Prasarak Mandal (VPM) has done pioneering work in the field of education since 1935. A Marathi medium school, an English medium school, a college of arts and commerce, a college of science, a law college, a polytechnic and a management institute stand testimony to their outstanding contribution in the field of education. The vision, dedication, transparency of working, creativity and networking skills of the pioneers like Dr. V.N. Bedekar, Shri Gunakar Joshi and a host of others brought about this educational revolution to Thane city and Thane district.

Launching management education programmes in 1973 was yet another evidence of the VPM's foresight and its capacity to identify community's needs and provide for such needs. As VPM's internal record and notings show they launched this venture to meet the needs of industry surrounding Thane city. VPM says:

"In 1973, after a careful assessment of the needs of the employees working in the Thane Industrial Belt, Vidya Prasarak Mandal started a three year DBM course in the department of Business Management which was affiliated to Pune University."

Subsequently came Mumbai University's affiliation and VPM's Management Institute was the only management institute after JBIMS in the whole of Bombay region offering such programmes.

VPM's Institute of Management Studies added DIM (Diploma in Industrial Management) - another 3 year part time programme for working executives and soon it had as many 11 management education programmes, frequent seminars, workshops, with plans for a full fledged MMS programme, research and consultancy cells, etc. ACC (Associate Cement Company) having its office in Thane was very helpful in building up these educational services in those formative years and VPM's IMS has over 2500 proud alumini contributing significantly to industrial development in this region.

VPM's Institute today is AICTE recognized and has launched a full fledged MMS programme with state of the art facilities and also has EMBA and PGDBM programmes and VPM's Chairman Dr. Vijay Bedekar aims at building up the Institute to be amongst top institutes in the country in the next few years.

VPM's contribution is noteworthy and all its Directors over the years and the faculty under the able guidance of VPM's Management council members have, one must note, done a remarkable job in the progress of modern management movement in this part of the world.

Bombay Management Association

Another institution that came to Thane is Bombay Management Association which inaugurated its Thane Centre with Shri D.S. Vaidya as its first chairman in 1994. Shri Santosh R. Tendulkar was the BMA president at that time. Thane centre was later led by people like Shri Nanubhai Mehta, Dr. Venkat R. Gadwal, Shri Pritam Ghanashamnani, Shri Suresh Vaze, Prin L.S Bhole, Shri Anant Singhania and Ms. Smita Mahajan and the committee comprised of a dedicated band of professional managers and academicians.

Incidentally, Thane centre was inaugurated in the VPM's Thorle Bajirao Peshwe Sabhagriha at Thane college campus and Mr. Santosh Tendulkar appears to be a gift from VPM to BMA. Mr. Tendulkar was a director of VPM's Institute of Management Studies from 1987 to 1990.

BMA is a vibrant local management association (LMA) affiliated to All India Management Association. It has completed 51 years of its useful existence and has been adjudged as the best LMA five times in the last about 15 years. With 3500 members and with over 1,00,000 managers trained by it so far, BMA has played a significant role in strengthening professional management movement in this region.

Over the past eleven years BMA Thane centre has organized about 50 management training programmes, some in collaboration with VPM's Institute of Management Studies and PTV's Institute of Management and Professional Studies at Mulund.

Other Players

In the field of Management education PTV's Institute of Management and Professional Studies, ICFAI Business School, BMS departments of various colleges, distance education programmes of IGNOU, YCMOU, ICFAI, Wellinkgar Institute have lately played an important role in upgrading management skills of managers in this area. Several new management schools in Thane and surrounding areas and in Navi Mumbai have started playing their useful role in the recent past.

Management Scene to come

Management movement of the future would be shaped by both international influences and local needs. Mantra would be to think globally and act locally. Creation of globally competitive managers and continuously upgrading their skills and meeting the needs of the local community through such human power would be essential.

With GATT coming into effect from 2005 management education would have to be globally competitive and with manpower being internationally mobile largely because of information and communication technology, such management graduates would have to be not only globally competitive but capable of managing global undertakings and be globally active managers.

To do this our management educators and educational institutions would have to be significantly upgraded. Educators and educational institutions should have healthy competition amongst themselves and simultaneously collaborate with each other to meet international competition and capture global markets. This, however, does not mean that the management movement and management education would not take care of local needs, say of Thane city, Thane district, Maharashta or India.

It would study the changing local needs and rise to the occasion of meeting them with its sharpened tools and technology.

Thane city and Thane district would need a more responsive and transparent governance. Thane's agriculture, dairy and poultry needs a revolution. Public health and hygiene are crying for major improvements. Education for all and continuing education for adults are waiting for a major overhaul.

New emerging industries and services like IT, telecom, financial and marketing expertise, entertainment would require a different kind of managerial excellence.

Management institutions like VPM's Dr. V.N. Bedekar Institute of Research and Management Studies would have to think in this direction to play its destined role effectively. That would be our real tribute to visionaries like Dr. V.N. Bedekar.

We have a great opportunity at hand. Let us not waste it. Let us capitalise on this excellent opportunity to redeem our pledge to our destiny as professional managers and educators.

♦♦♦

DR. V. N. BRIMS – Crystal - Ball Gazing

Prof. V.S. Bhakre

Times of India December 31st, 2005 on the new year's eve declared “Look for tomorrow's supplement Leap year 2006” Although the month of February has only 28 days, how could this be a leap year? Then it was clear. There is an atmosphere of entrepreneurship every where. M.B.As, technical graduates are chunking decent jobs to prove their own big ideas. Industries are booming. Retail, Real Estate, Education, Aviation, IT, Pharma, Telecoms and many more are standing on an escalator. The Mumbai stock market is anticipated to cross the 10,000 mark – highest in the history. So 2006 is a leap year of peak performance What's true to our country could it be true for our institute? Hence crystal – ball gazing.

The start of a new year – more so for Dr. V.N.BRIMS, is a time to look back with nostalgic memories of happiness and some times sorrow, but makes us to look ahead with a sense of optimism. As a visiting faculty for more than a decade, I had an opportunity to watch from a close corner and also to participate in a few critical decisions during the last year. To me Dr. VNBRIMS is on the take-off stage. It is for us to make it happen.

The management education at VPM's Institute started as early as 1973 by introducing part time courses including D.M.S. of Mumbai University. Then it was a department of commerce college, but the real attention with seriousness was given during the year 1999. During this academic two year full time PGDBM – autonomous was started by appointing Prof. Lad as a full time Director, a real seed was sown then. We picked up a path less travelled, because all management institutes start with M.M.S. (Master in Management Studies) with the approval of AICTE. Thus MMS becomes an entry point and it is used as a stepping stone for other courses. We took the other way round. Although the initial results were not sensational, our learning curve is much better.

The evolution of Dr. VNBRIMS can be compared to a Chinese bamboo tree. During the first 4 years after seeding, just a tiny shoot comes out of a bulb. Initially first four years all growth is under ground deep and wide in the earth. But in the 5th year Chinese bamboo tree grows up to 80 feet. That is what happened in 2005. A massive building with a state of art infrastructure appeared and enabled us to get an AICTE approval. Patience and willingness to suffer inside from the top management, more so by Dr. Vijay Bedekar, resulted in a reality, much against heavy odds. Now it is a cynosure in the campus.

What was our learning curve?

A survey conducted by a renowned management consultant in the year 2000 did give food for thought on “what is wrong with MBA's”. More than sixty corporate senior executives were interviewed. A few salient points were:

1) MBAs' lack vision
2) 7 out of 10 students can't face stressful situations
3) Attitude seems to be the greatest block
4) Lacked confidence and the skills to make effective presentations
5) More analytical rather than creative.

Since the PGDBM course was autonomous, we had the freedom to draw syllabi to take care of the lacunae mentioned above. Even the calibre of students taking admission was not of a high order. We were obliged to make the best of resources available. Thus during the initial years lot of attention was given on soft skills. The gaps that were identified were addressed to a great extent. Past students have no regrets, rather a few have made a mark in the corporate world. Now we do have a right person in Dr. Guruprasad Murthy as a Director. We can comfortably look forward to a

"Leap year of peak performance" with lot more activities around the corner.

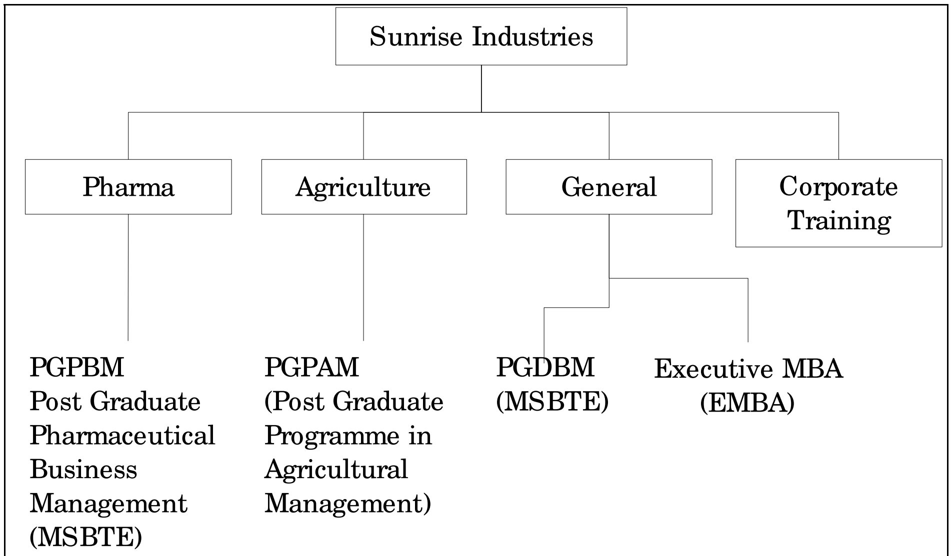
What are our strategies?

Winners don't do different things, they do things differently. A few seeds sown during 2004-05 are sprouting. We have picked a few courses in "SUNRISE INDUSTRIES" based on our "SWOT" (Strength, Weaknesses, Opportunities and Threats) analysis.

that direction. Innovation is the need of the day. All research need to be geared towards creating marginal differences in the market place. Managing innovation calls for different strategies.

A few are

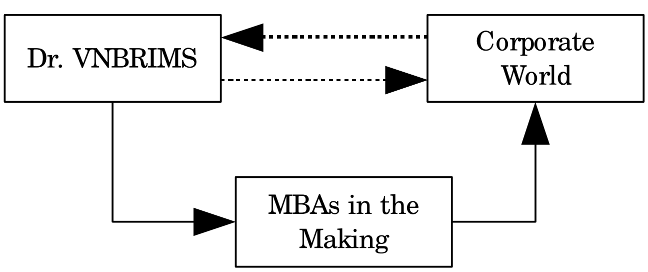
1) Enhance the relation with educational institutions like Pharma, Agricultural and Science colleges
2) Strengthen relations with corporate world – A plan of action need to be drawn.



SWOT Result

Although we do have a few more under consideration, we would like to go step by step by giving concrete shapes to the ones mentioned above. We do strongly believe that "Management Institutes" are human resource suppliers to corporate world.

Corporatisation of Education



We need to prepare not only "Managers of Tomorrow" but even "Global Managers" keeping in mind the competition world wide "Marketing is the key to our success" We need to build our "Brand image" at a jet speed. Even our seminar on "Challenges to Indian Multinationals" is a step in

3) Associate with chambers of Commerce and Industry so as to support our activities and support our students in job opportunities. The recognition from Maharashtra Chamber of commerce, Industry and Agriculture, is a step in this direction. We need to extend it to Pharma sector.
4) Involve pundits from industries for suggestions in drawing the Syllabi
5) Resort to holistic development of personalities.
6) Last but not the least, prepare our students to face the challenges of corporate world and even contribute for growth.

We need to devise our USP/CVP (Unique Selling Proposition/Customer Value Proposition) so as to have a competitive edge.

Career is now an adventure sport. Our students community who are our ambassadors have a tough time in this competitive world. It's the survival of the fittest. Old generalist is replaced by a new specialist. Time is now ripe to reposition and regear our education system to become thought leaders within India and beyond. To realise this there's no magic, grit and single minded determination will help us to achieve the vision of a

"A WORLD CLASS MANAGEMENT INSTITUTION"

This is the vision of none other than

DR. V. N. BEDEKAR – A HUMBLE MAN WITH A NOBLE SOUL

"WINNERS MAKE IT HAPPEN " - Let us do it!

♦♦♦

Assessment Centres — Source of Human Resources

Dr. Pooja Lakhanpal

"If you are planning for one year, grow rice.
If you are planning for 20 years, grow trees.
If you are planning for centuries, grow men."
— Chinese Saying

Introduction

An assessment centre is a structured combination of assessment techniques that are used to provide a wide-ranging, holistic assessment of each participant. Assessment centres work on the principle of multi-trait multi-method assessment. Any single assessment method may give misleading results; some people interview well, while others are good at tests. A well designed assessment process is based on a criteria/assessment grid and allows multiple assessments of each criteria. Research has shown it to be a much more accurate and cost effective way of selecting than a standard interview.

Assessment centres were first used by German and British psychologists during the Second World War and adopted by the American Office of Strategic Services as an aid in selecting agents and operatives. It was in 1956 that psychologist Douglas Bray implemented the first industrial use of assessment centres as part of a research study involving ATandT. Since then many psychologists have studied and analysed that these findings continue to have a long-term impact for a professional even after 20 years. Assessment centres enable not just the organisation to groom future leaders, but also make an individual understand his own abilities. Its popularity has grown since then, prompting Hinrichs (1978) to refer to the assessment centre as "one of the more phenomenal success stories of applied psychology".

Certain characteristics shared by all assessment centres are:

Assessment in groups

In an assessment centre, small groups of participants are assessed simultaneously. Since group activities and peer evaluations are an integral part of most assessment centres it is generally difficult, if not impossible, to use this technique to its fullest potential in assessing a single individual.

Assessment by groups

The assessment team may be made up of managers, psychologists, consultants or some mix of these three groups. Each participant's behaviour is observed and evaluated by a number of different assessors and the final rating represents the assessment team's consensus regarding the participant.

The use of multiple techniques

Assessment-centre activities generally include ability tests, personality tests, educational tests, interviews, peer evaluations and performance tests. The central assumption is that each technique has it strengths and weaknesses and that a combination of diverse techniques is necessary to capitalize on the strengths of each individual technique.

The use of situational test

Many assessment centres use some type of work sample or situational tests. Both in-basket and leaderless group discussion methods are popular as are role-playing exercises.

Assessment along multiple dimensions

The outcome of an assessment centre is a consensus rating along each of several dimensions. Each exercise in the assessment centre typically provides information relevant to one or more dimensions and ratings on a specific dimension might reflect data obtained from several different exercises.

Duration and format

Assessment centres can vary significantly in length, content and format depending on the objectives for the centre, the criteria to be assessed and the type and number of candidates participating. They can last for as little as half a day or as long as two days.

Assessment Centres are now being widely used in USA and EU as an effective tool for selection and recruitment. In India so far their use has been restricted to a few MNCs. However due to the increasing demand for skilled manpower corporate India is beginning to realise the importance of 'garbage in/garbage out principle'. The need for effective selection and recruitment tools is being fuelled by the growth of ITES, Software and BPO industry. India's $23.4 billion outsourcing industry accounts for most of the country's software and services industry, which makes up nearly 5 percent of gross domestic product. The industry employs 1.2 million workers, has sparked a consumer revolution in India, and is accelerating at more than 30 percent a year. While the IT industry absorbed around 50 to 60 thousand fresh recruits and the BPO 125 thousand in 2004, in 2005 it is likely to create 75 thousand new jobs in IT and 150 thousand in the BPO sectors, respectively. The BPO sector is also expected to need manpower to the tune of 1.1 million by 2008. Given the booming manpower requirements in the IT and BPO sector; lower recruitment conversion rates (7-8% for the IT sector as compared to 3-4% for the BPO sector); high attrition rates (18% is the IT industry average while it's 45% for BPOs) and dispersed talent across India, recruitment in high growth industries like IT and BPO is becoming increasingly challenging.

Low unemployment combined with a stable and growing economy, has left employers fighting over a small number of potential recruits and facing real difficulties getting the right people into the right jobs. Research also shows that one in eight employees leave within the first six months, so recruiting the right person in the first place, retaining them and revising existing selection techniques should be a priority for employers.

Raison d'être of Assessment Centres

A number of commentators have suggested reasons for the growing popularity of Assessment Centers. The most important one is the current economic climate which is motivating organisations to turn to assessment centres (Cook, 1994). Competitive forces and the emergence of the global market has prompted organisations to look at their human resources as a significant source of competitive advantage. Valuable competitive advantage is lost if errors are made in recruiting, promoting and developing human resources. There is a growing perception amongst the corporates that the interview which is still the most popular method used for selection purposes is not very effective. Weisner and Cronshaw (1989) report that unstructured interviews, which probably constitute the vast majority of all interviews undertaken by organisations, have low validity coefficients (0.2). However, structuring the interview, particularly by using formal job analysis as a basis, increases validity significantly (0.46). There remains significant room for error. This low level of accuracy has prompted organisations to seek alternative methods.

Gareth Roberts, author of Recruitment and Selection, says, "Recruitment and selection is the foundation of all other HR activity. Get it wrong and it doesn't matter how good the development programme is, how well an employer motivates their staff, how well they manage their performance, or even how well they reward them - they are always making up for that one bad decision."

Much of the recent literature on personnel management has emphasised the necessity for the recruitment and selection of employees who are committed to the goals of the organisation. Due to the new demands on organisations arising out of business complexities, many organisations are transforming their structures that are built on functions and jobs, to those where focused, self-directed work teams, made up of empowered individuals with diverse backgrounds, are replacing traditional specialised workers. Traditional autocratic structures are flattening and organisations are beginning to utilise multidisciplinary teams to remain competitive (Raghuram and Arvey, 1996; Worren and Koestner, 1996). Burack and Singh (1995) highlight that firms need adaptable people who can adjust to rapidly changing customer needs and operational structures, while Pfeffer (1994) argues that employees, and the way they work, comprise the crucial difference between successful and unsuccessful organisations. He argues that as technology improves and product life cycles shorten, the major source of competitive advantage will be the individual worker. Furthermore, Terpstra (1996, pp. 16) indicates that, as companies downsize, "delayer" and try to boost productivity with fewer people, those that remain are being asked to assume more tasks, roles and responsibilities. He proposes that, as this trend continues, companies will be asking fewer employees to know more, do more, change more and interact more and thus interest is increasingly focused on identifying the recruiting sources that are most likely to yield high quality employees and the selection methods that best predict future job performance. Arguments such as these have led Ripley and Ripley (1994) to suggest that the critical organisational concern today is the hiring or promoting of the best qualified people while still meeting all regulatory requirements.

The focus of recruitment and selection is on matching the capabilities and inclinations of prospective candidates against the demands and rewards inherent in the organisation. This is the reason why Recruitment and selection are considered as one of the most important human resource management functions (Judge and Ferris, 1994). Profitability and even the survival of an enterprise usually depends upon the calibre of the workforce Plumbley (1985) and it has been argued that the costs of ineffectual commercial viability can often be attributed to decades of ineffective recruitment and selection methods (Lewis, 1984; Plumbley, 1985; Smith and Robertson, 1993; Terpstra, 1996).

The advantages of using Assessment Centres are:

Improving accuracy of selection decisions by providing the opportunity to observe candidates actually handling the type of tasks and situations with which they will be faced on the job.

Improving accuracy of predicting job performance than that of an unstructured interview.

Helping an organisation to identify management potential and diagnose individual management development, so that training and development effort can be invested more cost effectively.

Acting as a powerful stimulant to management development by providing self-insight into problem areas and, therefore, identifying development priorities.

Saving time and money by combining selection, assessment and the identification of training needs in the same procedure.

Allowing group testing, which saves time and staff resources when compared to one-to-one testing.

Create group dynamics, which allows aspects of the individual to be studied that cannot be measured by other means. For example, candidates may describe themselves as dominant and forceful on their application form or when completing a personality inventory, but whether they can actually work effectively in a real-life group situation and persuade others to accept their views remains untested through paper-and-pencil measures

Obtaining a more accurate impression of the true qualities of candidates.

The result is that assessment centres are a very good way of predicting how a candidate is likely to behave on a job.

Farnham and Pimlott (1995) suggest that one result of effective recruitment and selection is reduced labour turnover and better employee morale. Recruiting ineffectively is costly, since poor recruits may perform badly and/or leave their employment, thus requiring further recruitment. However, Wood (1985), in a cross national study of recruitment practices, suggests that, in reality, recruitment practices involve little or no attempt to validate practices. Personnel managers tend to rely on feedback from line managers during probationary periods and disciplinary procedures to weed out mistakes. Firms with high quit rates live with them and tend to build them into their recruitment practices – they do not analyse the constitution of their labour turnover.

In an attempt to explain why the rational model has limited application in the current business environment, Worren and Koestner (1996) posit three particular arguments:

- In an increasingly competitive environment the content of jobs may change quickly over time, because of shifts in corporate strategies or technological innovations. Stable person/job match is unlikely in such unpredictable organisational environments.

- The increasing use of self-managed teams makes it difficult to view individual jobs as the key unit of analysis. Team members may be given the responsibility of allocating tasks between members and engage in collective problem-solving efforts that can be more meaningfully understood at the group level of analysis.
- Research has documented that person/job match may not be sufficient to achieve high job satisfaction, commitment and job performance among employees. It is necessary also that employees hold values that are congruent with those of the organisation.

What Do Assessment Centres Assess?

When designing an assessment centre, employers identify the particular skills and qualities they require in the job or organisation to which they are recruiting. They will be as specific as possible and set criteria against which they assess each candidate.

A job analysis of relevant behaviours must be conducted to determine the dimensions, competencies, attributes, and job performance indices important to job success in order to identify what should be evaluated by the assessment centre. The type and extent of the job analysis depend on the purpose of assessment, the complexity of the job, the adequacy and appropriateness of prior information about the job, and the similarity of the new job to jobs that have been studied previously. If past job analyses and research are used to select dimensions and exercises for a new job, evidence of the comparability or generalizability of the jobs must be provided. When the job does not currently exist, analyses can be done of actual or projected tasks or roles that will comprise the new job position, job level, or job family.

Target dimensions can also be identified from an analysis of the vision, values, strategies, or key objectives of the organisation. A "competency" may or may not be amenable to behavioural assessment as defined herein. A competency, as used in various contemporary sources, refers to an organisational strength, an organisational goal, a valued objective, a construct, or a grouping of related behaviours or attributes. A competency may be considered a behavioural dimension for the purposes of assessment in an assessment centre if it can be defined precisely and expressed in terms of behaviours observable on the job or in a job family and in simulation exercises. A competency also must be shown to be related to success in the target job or position or job family.

Behavioural Classification - Behaviours displayed by participants must be classified into meaningful and relevant categories such as dimensions, attributes, characteristics, aptitudes, qualities, skills, abilities, competencies and knowledge.

Exercises Used At Assessment Centres

Interviews

The most common exercise used is either a one-to-one or panel interview. These are likely to probe any weaker areas that may have emerged at a first interview. Interviews at this stage are likely to be more in-depth than those experienced during the first stages of selection and could be with someone from the department/division directly concerned with the job/position.

Psychometric/Aptitude tests

Aptitude tests are timed tests, taken under exam conditions, designed to measure the intellectual capacity for thinking and reasoning, particularly logical/analytical ability. The tests are designed for specific roles and are meant to be challenging. Accuracy is more important than speed. Most tests are multiple choice and designed so that very few candidates both finish and get the correct answers.

Personality inventories assess the personality of the candidate and how they may react in different situations. They are not usually timed, have no right or wrong answers and are often used to see if the candidate can fit into the organisation culture.

Case Studies

In these exercises, the candidate is given a set of papers relating to a particular situation and asked to make recommendations in a brief report. The subject matter itself may not be important; the candidate is tested on the ability to analyse information, to think clearly and logically, to exercise judgement and to express oneself on paper.

In-tray exercises

These are business simulation exercises in which the candidate is given a heaped in-tray or electronic in-box, full of e-mails, company memos, telephone and fax messages, reports and correspondence, together with information about the structure of the organisation and his/her place within it. The candidate is expected to take decisions: prioritise workload; draft replies; delegate tasks; recommend action to superiors; and so on. Designed to test the ability to handle complex information within a limited time, the exercise allows the candidate to demonstrate organisational and planning skills. Some employers also want to know why certain decisions have been made and may ask to annotate items in the tray or discuss decisions later.

Presentations

Some employers ask the candidate to prepare a short talk for presentation to other candidates and/or the selectors. He/she may be asked to bring a prepared presentation to the assessment centre but usually it must be produced on the day. A topic could be given for discussion or have completely free choice.

Group Activities

Most jobs involve working with other people and most assessment centres involve a substantial element of group work. Whether it is to complete a practical task or take part in a discussion, the selectors are looking for the candidate's ability to interact with other people.

Practical Tasks

The candidates may be asked as a group to use equipment or materials to make something. The selectors are more interested in how the group interacts than in the quality of the finished product. They will also be assessing planning and problem-solving skills and the creativity of individual ideas.

Discussions and role plays

A role playing exercise or a leaderless group discussion could also form part of the assessment. In the role-playing exercise a briefing is given and the candidate is asked to play a particular part. This helps in assessing individual contribution to the team, as well as verbal communication and planning skills.

Setting Up An Assessment Centre

The process for setting up an assessment centre is outlined in Figure 1.

The various steps are described below;

Determine Objectives

The most important stage is that of determining the objectives of setting up the centre. The objectives could be to use the centre for selection purposes or training or career path mapping. The objectives of setting up the assessment centre should be an integral part of the organisation's Human Resources strategy. Defined objectives should synergise with wider company goals and strategy and provide clarity of how the Assessment Centre could help to achieve the same.

Gain Commitment

It is important to gain the confidence and commitment of the key people and top management involved in the process.

Job/Role Analysis and Selection Criteria

As with any selection process, a thorough job analysis is an essential requirement prior to setting up of the assessment centre. Knowledge, skills, abilities and personal competencies required to perform well in the job can be defined by using various observational, interviewing and questionnaire methods and techniques. It is these competencies or selection criteria that one is trying to assess when employing assessment methods. Criteria need to be clear, measurable and acceptable to the organisation.

Key Stages of Assesment Centre Development

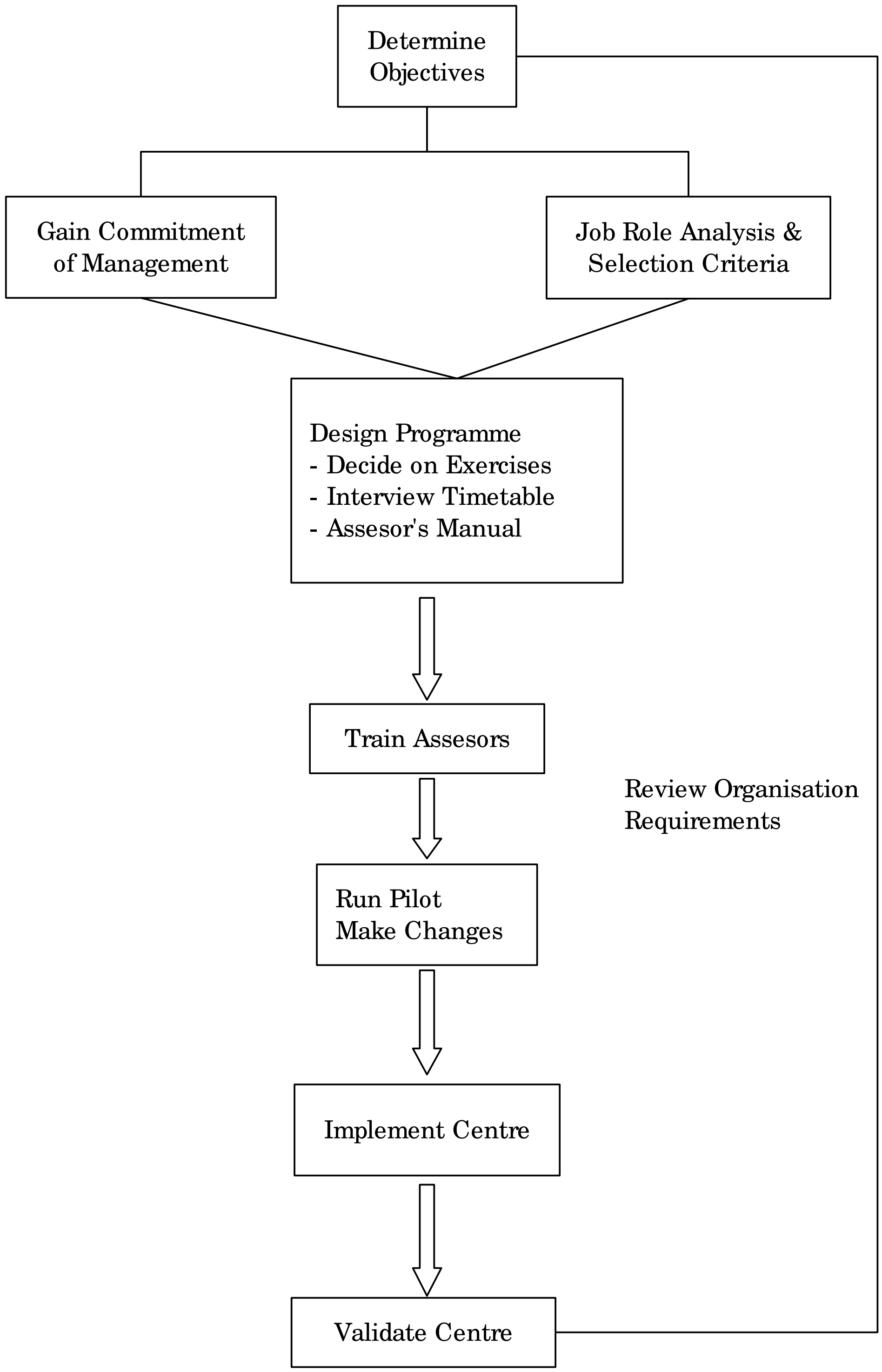


Figure 1: Key Stages of setting up an Assessment Centre

Design Program

It is important that a balanced assessment matrix is designed. A breadth of exercises should be selected or designed to ensure that they are able to comprehensibly cover each of the behaviours that are required in an organisation's selection criteria/competencies. Exercises should cater for the correct level in terms of difficulty and content, bearing in mind practical constraints in addition to demonstrating reliability and validity.

The exact number of candidates that could be assessed in a day should be determined well in advance and only those many should be called. This will depend upon the number of assessors and interviewers available to attend. A timetable should be constructed accordingly which best caters for the needs of all involved.

Assessors should be supplied with a manual which provides them with a copy of all assessment information with supporting guidelines to make their information processing easy to manage during the process.

Train Assessors

It should be ensured that assessors are given comprehensive training regarding the exercises to be conducted and the assessment criteria. Such training, coupled with highly structured materials to enable classification and evaluation of candidates ensures a high degree of consistency between assessors. This in turn will enable high quality, fair and objective assessments and convey a credible professional image to your candidates.

The involvement of a number of Assessors helps increase objectivity and reduce bias. Assessor should be selected from a representative set of functions who understand the roles and required competencies.

Run Pilot and Make Changes if Necessary

It is important to make a pilot study prior to actual launch of the centre. Feedback should be obtained from all involved and make any necessary changes. This step helps ensure the process is positively perceived by both the candidates and the assessors.

Implement Centre

Everyone involved in the process should be fully briefed - assessors, interviewers and participants. Prepared timelines should be adhered to as far as possible. All the information collected on each of the candidates should be integrated, allowing a selection decision to be made on the basis of observations made in a number of exercises.

Feedback to the Candidates

It is best practice to offer feedback from all parts of the assessment centre process to participants regardless of the selection decision. As far as the participant is concerned it is often the most important part.

Validate the Centre

The highly structured form of information collected from assessment centres allows for statistical analysis to be carried out over a length of time to provide detailed information regarding which components of the process are most powerful in predicting effective job performance. Periodic reviews ensure that standards are being maintained and the different components are working in the intended way. This ensures that any aspect of the process that might be creating adverse impact can be identified and remedied.

Review Organisational Requirements

There should be scope to make amendments to the process overtime as the roles and job requirements change. Information from validation studies and job analyses can provide information on appropriate changes to selection procedures.

Conclusion

From the above sections it is clear that assessment centres require great deal of resources with regard to cost, time and manpower. However when the advantages and the returns are weighed the investment can be considered worthwhile.

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In the context of globalisation, english language has acquired utmost importance. Globally, perhaps, english is spoken by the largest number of persons in the world and India perhaps is the largest reservoir of people knowing the english language. There is therefore a great fad, a rejuvenated fad at that, to cultivate improved articulation skills in english. However, to those who do not know the english language, this is becoming a stigma. One should avoid a situation where there is lot of local talent well versed in their mother tongues which is ignored for its intellectual potentials and the traditional knowledge base available in it. Hence the rejuvenation of the English should not act as a stumbling block for people well versed in local languages. In a multilingual country like ours business is carried out in Governments, Courts, Municipalities and in day to day life in the local language. Preservation of regional communication media (local lingo, dialect or language, as the case may be) is necessary in order to protect project and promote Indian heritage, The purpose of government policy, management education and globalisation is to ensure an effective juxtaposition of all elements which will subserve the cause of globalisation without disturbing local ethos.

शासन, व्यवस्थापन, आंतरराष्ट्रीयकरण आणि मराठीकरण

जागतिकीकरणामुळे काही फायदे जरुर झाले. विज्ञान, तंत्रज्ञानाच्या कल्पनातील प्रगतीमुळे जग जवळ येऊन नव नव्या क्षेत्रातील ज्ञानाचे अभिसरण शक्य झाले. मात्र भाषांचा विचार केल्यास असे लक्षात येते की, इंग्रजीसारख्या भाषेला जगभर प्रोत्साहन मिळाले व त्यामानाने इतर भाषांच्या विकासांच्या शक्यतांना खीळ बसली. उदा. व्यवस्थापनशास्त्राचे विज्ञान प्रत्येक व्यक्तिच्या जीवनात दैनंदिन गरजेची बाब आहे अशा विषयाचे ज्ञान सर्वसामान्य माणसांना त्यांच्या मातृभाषेतुन दिले जाण्यासाठी केवळ धोरणां ऐवजी शासनाने अधिक सकारात्मक प्रयत्न करावयास हवेत. संगणक, विधि व्यवस्थापन, जैव तंत्रज्ञान, इ. बाबतचे ज्ञान मातृभाषांमधून उपलब्ध झाले तरच भाषांचा विकास होइल नाहीतर काळाच्या ओघात अनेक प्रादेशिक भाषा विस्मरणात जातील.

Latest Study on Intelligence Quotient

Dr. Pooja Lakhanpal

In today's information economy, people's knowledge, skills and relationships are an organisations biggest asset and main source of competitive advantage. People related costs have risen to more than two thirds of organisational spending. Therefore Workforce Optimization is the management 'mantra' of today. With looming prospect of the global talent crunch, finding right people for the right jobs is becoming increasingly difficult for organisations. Talent acquisition, management and retention are the greatest challenges faced by organisations today. In such a scenario, using Assessment Centre approach becomes a prerequisite. Assessment Centres help in determining the EQ (Emotional intelligence quotient), IQ (intelligence quotient) and PQ (Personality Quotient) of individuals. This data along with information regarding interests and motivations is compared with competencies required for different jobs. The eligible candidates also benefit from this approach. Matching skills, aptitude, and interests with the right career path can benefit the employer as well as the employee. An example of the relevance of IQ is presented in the table. The findings are a part of the study conducted by Richard Lynn, University of Ulster. Similar data can be obtained for individuals also. According to the study, A normal IQ ranges from 85 to 115 but exceptionally gifted people have scores starting at 145. In a previous study, Lynn had reported that "men were more intelligent than women by about five IQ points on average."

Young college pass outs who are on the threshold of making decisions regarding jobs are often in a dilemma. They have to match their aspirations, parental pressure, peer pressure and the job market requirements. Educational institutes train students for jobs but do not provide guidance regarding career choice. In such a situation students typically adopt the herd mentality, opting for courses and jobs which they perceive to be most popular. Providing right guidance to the students at this critical juncture would enable them to make the right career choice.

Vidya Prasarak Mandal, Thane, is one of the prime providers of quality education in Thane. They have the rare opportunity of being able to provide education from KG to PG. Their contribution to nurturing young minds, grooming them and preparing them for the industry is well acknowledged in the Thane region. Setting up of an Assessment Centre within the campus will help students in making the right choices. It would also help the Industry situated in and around Thane – Navi Mumbai Region to source the right candidates for their organisations. It would be a Win – Win situation for the industry as well as the students of VPM.

IQ	Country	IQ	Country
107	Germany	98	Czech Republic
107	Netherlands	98	Hungary
106	Poland	98	Spain
104	Sweden	97	Ireland
102	Italy	96	Russia
101	Austria	95	Greece
101	Switzerland	94	France
100	British Isles	94	Bulgaria
100	Norway	94	Romania
99	Belgium	90	Turkey
99	Denmark	89	Serbia
99	Finland		

Source DNA, 29 March 2006

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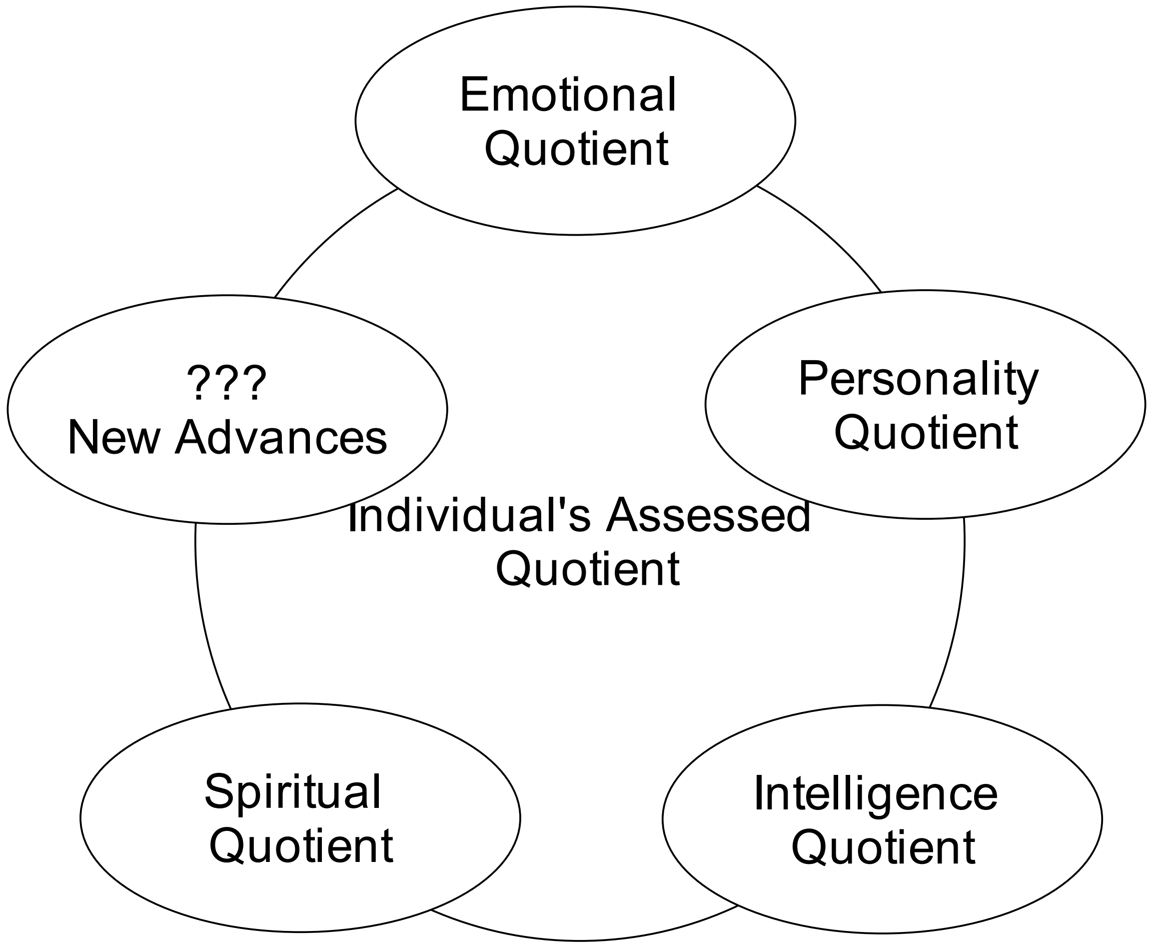


Emotional Quotient: *"Emotional and social intelligence is a multi-factorial array of interrelated emotional, personal and social abilities that influence our overall ability to actively and effectively cope with daily demands and pressures."*

- Dr Reuven Bar-On, Emotional Quotient Inventory, Multi-Health Systems, 1997

Intelligence Quotient: "*An intelligence quotient or IQ is a score derived from a set of standardized tests developed to measure a person's cognitive abilities ("intelligence") in relation to their age group."*

- wikipedia

Personality Quotient: *"Sum total of all dimensions of personality, that which can be measured (through test-batteries etc.) and also that which can be inferred through behaviour, manners, mannerisms, gesticulation, articulation, body language, attire, overall appearance, table manners, sociability, interaction and experience et. al."*

Spritual Quotient: *"Those traits which raise above the physical and material experience, heightened states of conciousness, sanctify everyday experience, utilise spiritual resources to solve problems and are virtuous, showing such traits as humility, gratitude, forgiveness and compassion"*

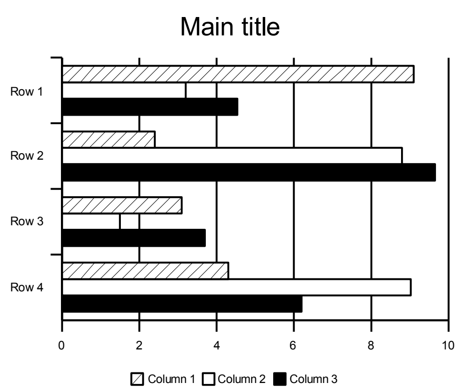
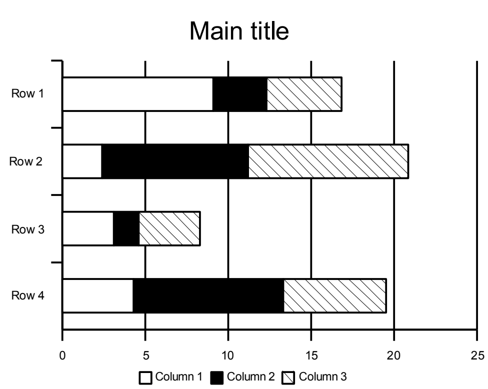
???New Advances: Genetic engineering is leading to some important findings which may provide new clues in the future (Source: Mumbai Mirror Sci-tech, The code of Life, 30th April, 2006, pp. 32)

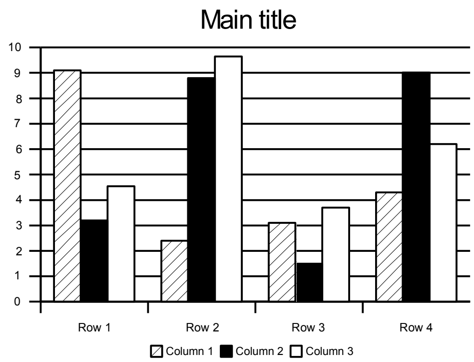
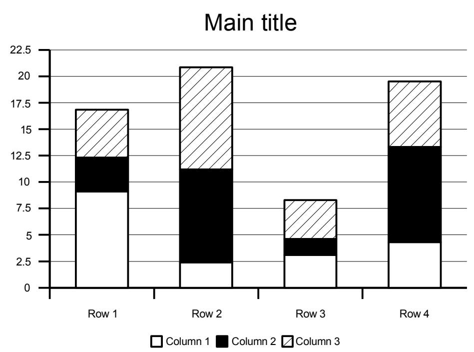
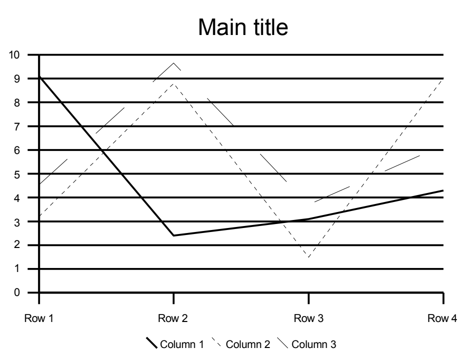
Communication Using Graphs

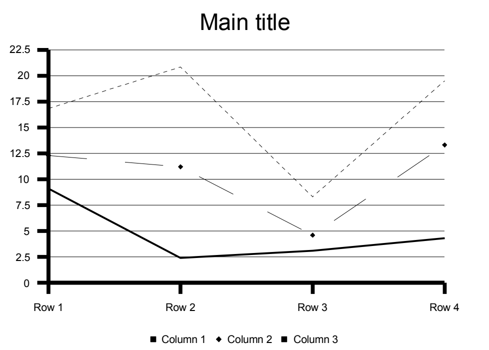
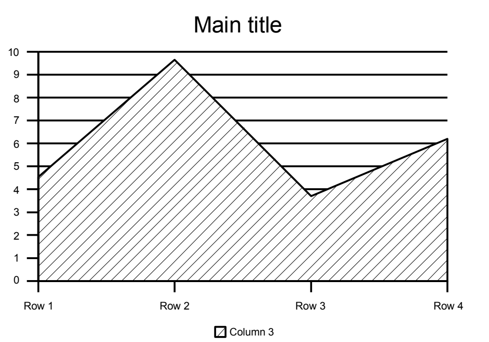
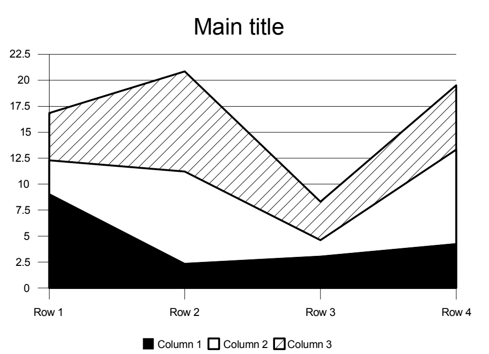
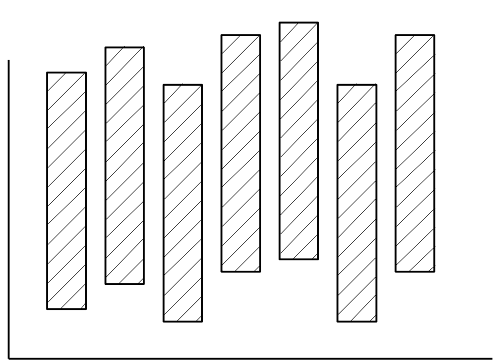
Compiled by Rajagopal S. Iyer and MMS I (2005-06) Students, Dr. VN BRIMS

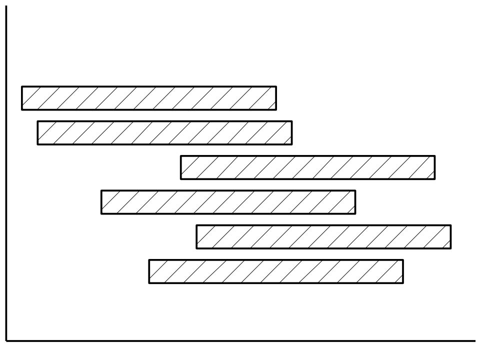
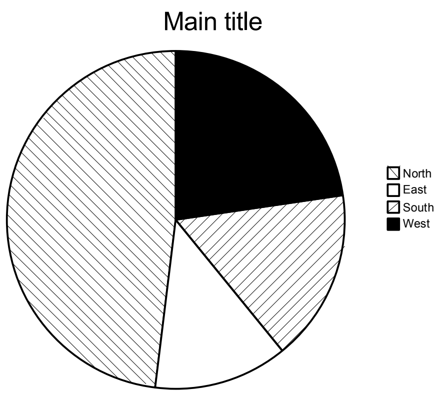
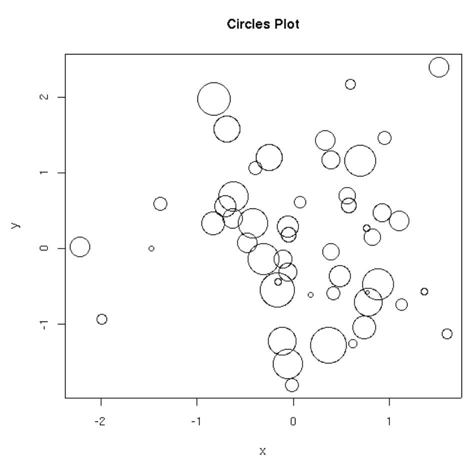
"Get the facts first, and then you can distort them as much as you please" - Mark Twain

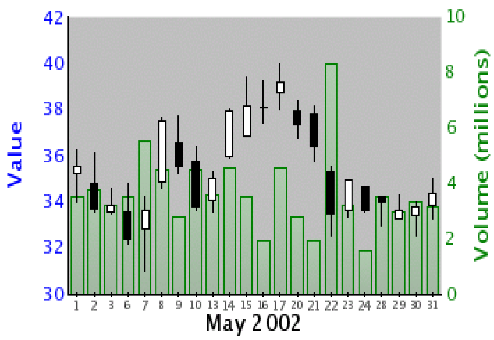
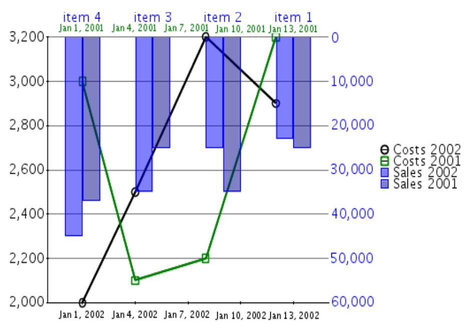
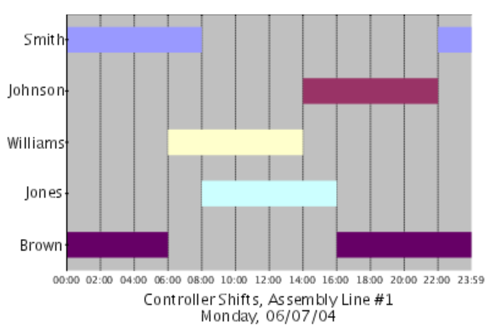
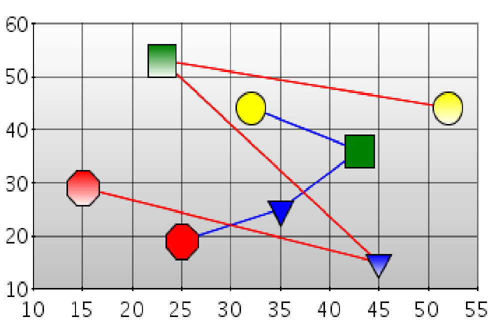
A picture is worth a thousand words. Charts form an important visual communication tool in Business environment. There are a wide variety of charts which many common software packages offer. It is essential that the correct chart type is used to communicate the desired message. Given below are some commonly used charts and some explanation on when they are to be used.

Example	**Name/Type**	**Usage**
Bar Chart A bar chart illustrates comparisons among individual items. Categories are organized vertically, values horizontally. Categories can contain multiple data points. In this case, each bar is colored according to the series that it represents.		
	Horizontal Bar	Show and compare categorical data, months, years, product categories rather than continuous time series or quantitative data. Horizontal orientation makes reading labels easier.
	Horizontal Stacked Bar	Categorical data, grouped or stacked to assist comparison. Use when part-to-whole comparison is key. Horizontal orientation makes reading labels easier.
Source: http://products.davisor.com/doc/usersguide/index.html		

<table>
<tr><th>Example</th><th>Name/Type</th><th>Usage</th></tr>
<tr><td>
</td><td>Vertical Bar/Column charts</td><td>Also referred to as column charts. In general, use bars/columns when individual values are important. Use without column labels or very short labels.</td></tr>
<tr><td>
</td><td>Vertical Stacked Bar/Column Chart</td><td>Also referred to as stacked column charts. Use when part-to-whole comparison is key. Keep column labels short.</td></tr>
<tr><td colspan="3">Line Charts
A line chart shows change over category.</td></tr>
<tr><td>
</td><td>Line (time-series)</td><td>Show and compare time series or sequential data. Frequently used to show trends and performance. Line charts can also be used to identify relationships between data sets. A good choice for use with large data sets, missing data and log scaling.</td></tr>
</table>

Example	Name/Type	Usage
	Line Chart (categorical)	Show and compare categorical data. User defined axis labels offer flexibility in the use of line charts. In some instances categorical-based Line charts may be used as an alternative to bar charts.
	Area	An area chart emphasizes the magnitude of change over time or category. Single data set area charts are effective for highlighting trends, and suffer less from misintrepretation than other types of area charts.
	Stacked Area	Stacked (cumulative) area chart displays the sum of the plotted values showing the relationship of parts to a whole. Use to show the relative sizes of components that make up a whole. Stacked area charts can be confused with layered area charts;
	Vertical Floating Bar	Also referred to as a floating column chart. Same usage as the Horizontal Floating Bar, typically a range of data. However, a vertical orientation may be preferable when additional data such as a median test score is included.

Example	Name/Type	Usage
	Horizontal Floating Bar	Show and compare categorical data as a range, typically hi/low or min/max but can also be used to show differences or deviation. Numerous applications.
	Pie Chart	A pie chart shows the proportional size of items that make up a data series to the sum of the items. It always shows only one data series and is useful when you want to emphasize a significant element. It is often used to show the relationship of part with the whole.
	Bubble Chart	A bubble chart uses relative magnitude visualization for showing data that is composed of value pairs. Both values in a pair can vary freely. The data must consist of 2 columns grouped together. These column are: • value for the X-axis • value for the Y-axis The order of the columns is significant. There are three possible ways for relative magnitude visualization. These ways are relative color, paint and size. All ways can be used simultaneously. A color or paint channel can be given, but not used for relative magnitude visualization. Bubble chart is a variation of a scatter chart.

Example	Name/Type	Usage
	Candlestick Chart/Stock Charts - OHLC	A candlestick chart is a stock chart showing open, high, low, and close values for a stock. The data must consists of 4 columns grouped together. These columns are in order: 1. open 2. high 3. low 4. close The order of the columns is important.
	Combo Chart	A combo chart shows at least two charts in the same chart. The charts shown can be of a same type or not. The combo chart gives a possibility to show many kinds of data in the same chart.
	Gantt Chart	A Gantt chart is a horizontal bar chart providing a graphical illustration of a schedule that helps to plan, coordinate, and track specific tasks in a project.
	Scatter Chart	A scatter chart shows data that is composed of value pairs. Both values in a pair can vary freely. The data must consist of 2 columns grouped together. These column are: • value for the X-axis • value for the Y-axis The order of the columns is significant.

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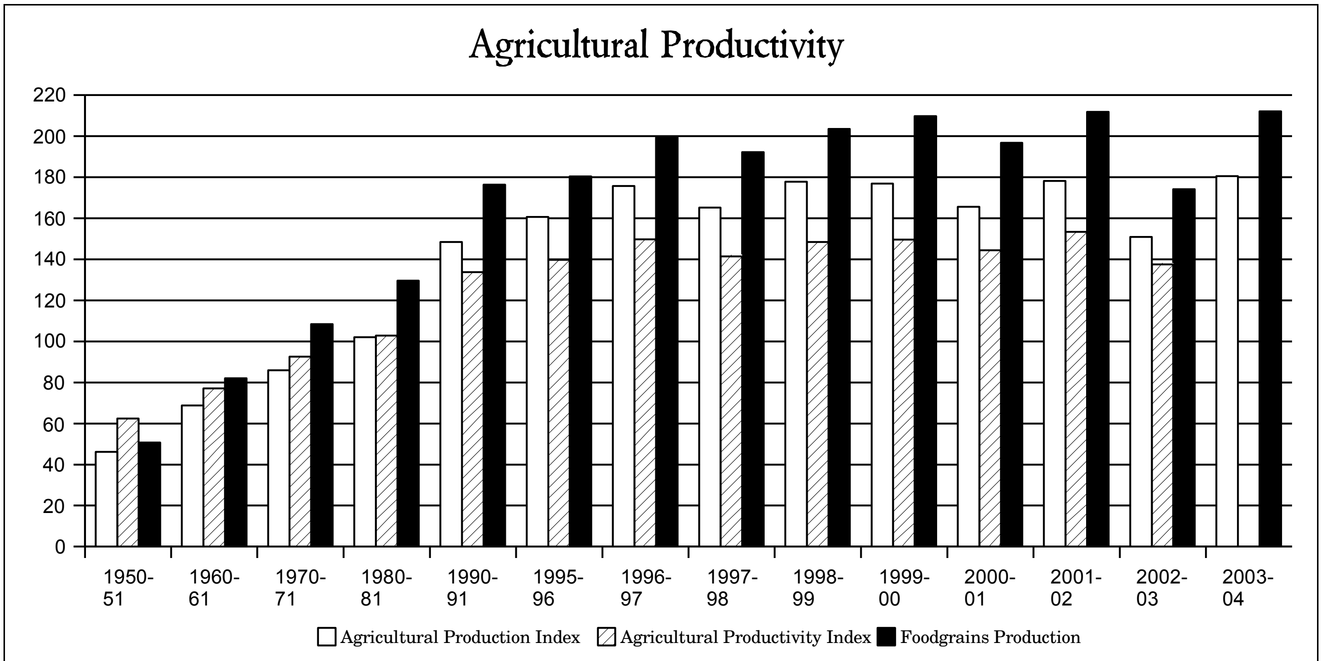
India – An Economic Snapshot

*Dr. VN BRIMS MMS I- 2005-06 Students**

"At the stroke of the midnight hour, when the world sleeps, India will awake to life and freedom. A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends and when the soul of a nation, long suppressed, find utterance. It is fitting that at this solemn moment we take the pledge of dedication to the service of India and her people and to the still larger cause of humanity.
- Pt. Jawaharlal Nehru, "Tryst with destiny"

I was listening to the Hon. Member who spoke before me; I was listening to his laments on the burdens that are put on industry , on taxation and on this and that. The fact of the matter is that that lament is based on a certain view of the World which, I fear, cannot possibly return. I am not thinking in idealistic terms but just practical terms; you cannot have it back. There are going to be greater burdens on industry, because the State itself is burdened so much with its social problems; it has to solve them or cease to be a socialist State, and might well become a police state, or some other State might take its place.

Source: Speeches of Jawaharlal Nehru in the constituent assembly, New Delhi, 7th April,1948.



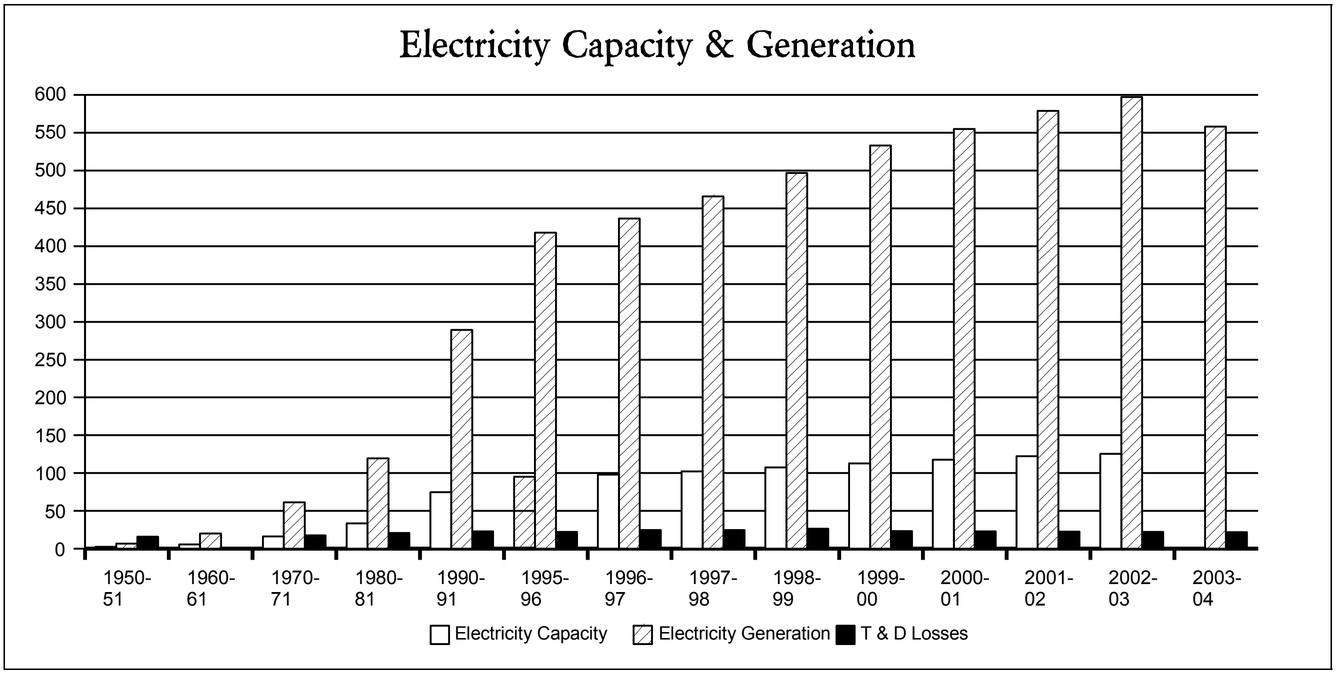
'The remark attributed to Disraeli would often apply with justice and force:
"There are three kinds of lies: lies, damned lies, and statistics".' – Mark Twain

* *A Study submitted to Dr. VN BRIMS by MMS-I (2005-06) students in partial fulfillment of the course requirements in Managerial Economics. Facilitator: Shri Kedar Nijasure*

Infrastructure

There has been considerable progress in the last ten years in attracting private investment into the infrastructure sectors; first in telecommunications, then in ports and roads, and in individual projects in other sectors.

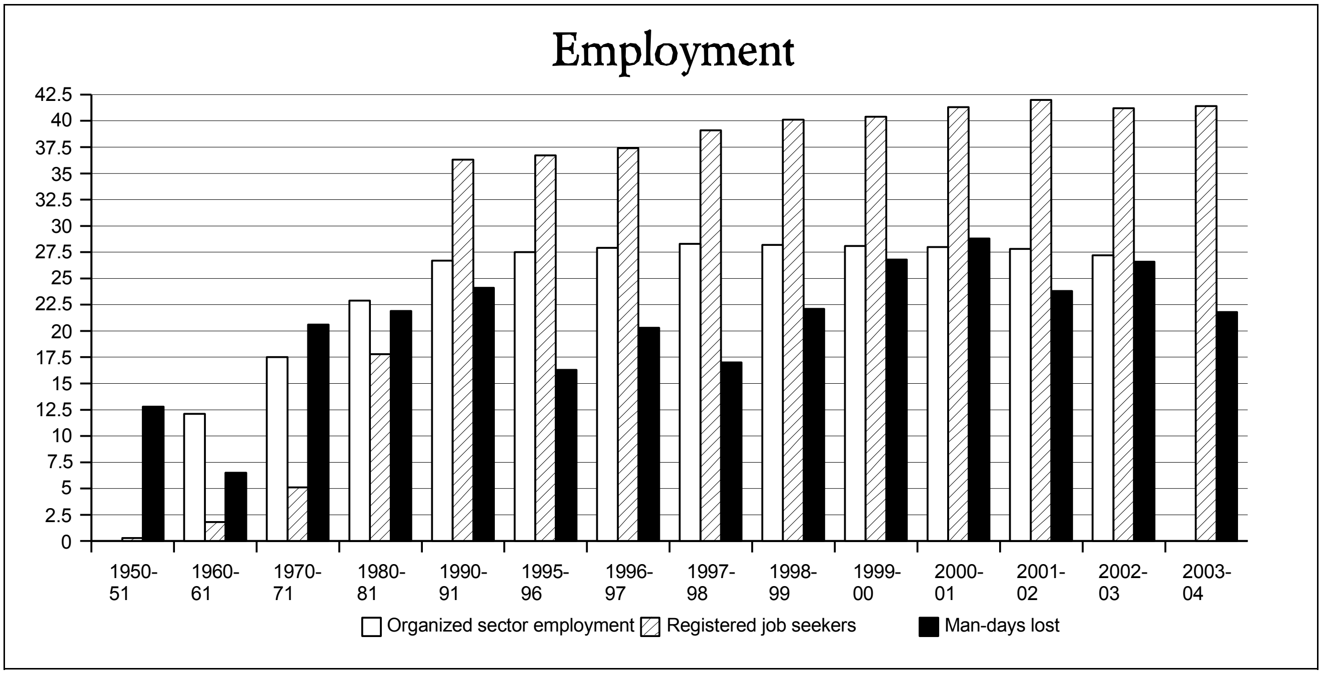
Taking cognizance of the advantages that PPP offers in terms of cost saving, access to specialized expertise and proprietary technology, sharing of risks with the private sector and the ability to take up a larger shelf of infrastructure investments, Government of India is actively encouraging them.



Source: Economic Survey 2005-2006 pp. 199

Industry Growth

While various sectors within manufacturing registered an impressive increase in the volume of production and exports, this was largely input driven and the growth in total factor productivity was hardly noticeable. Sustained efforts to remove bottlenecks hindering the productivity and efficiency of the manufacturing sector would boost the performance of the manufacturing sector substantially.

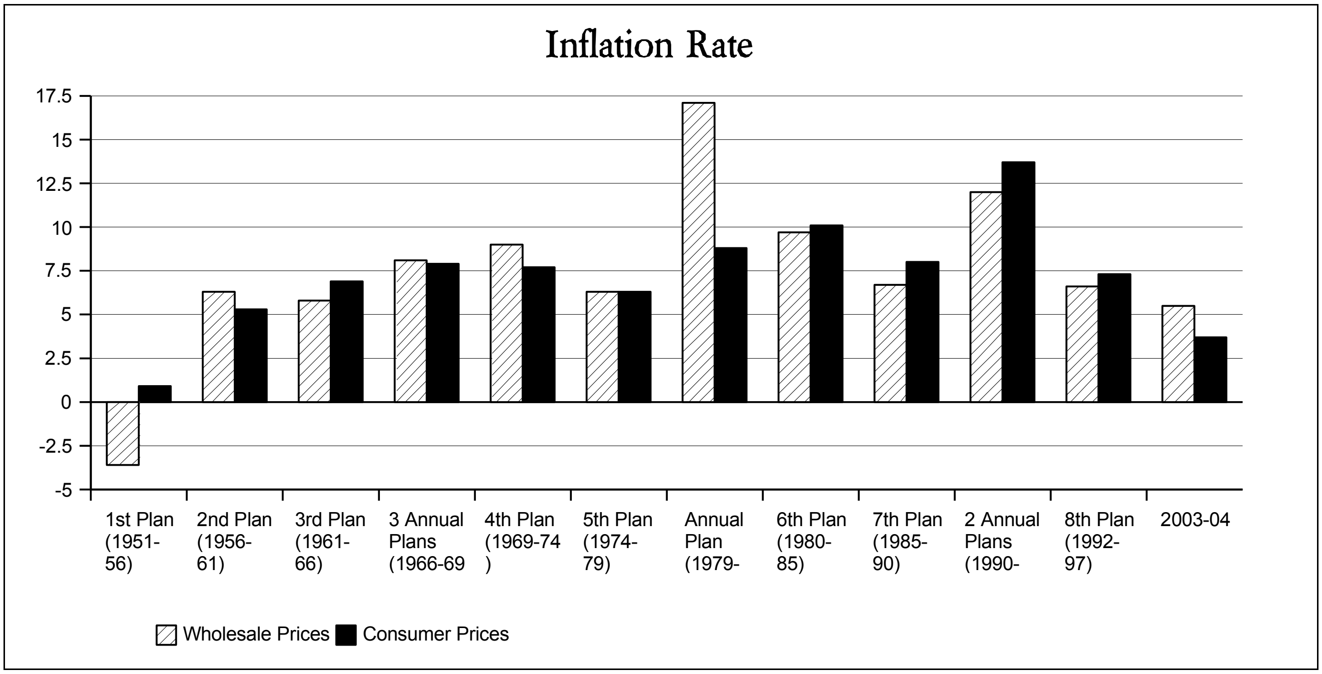


Source: Economic Survey 2005-2006 pp. 153

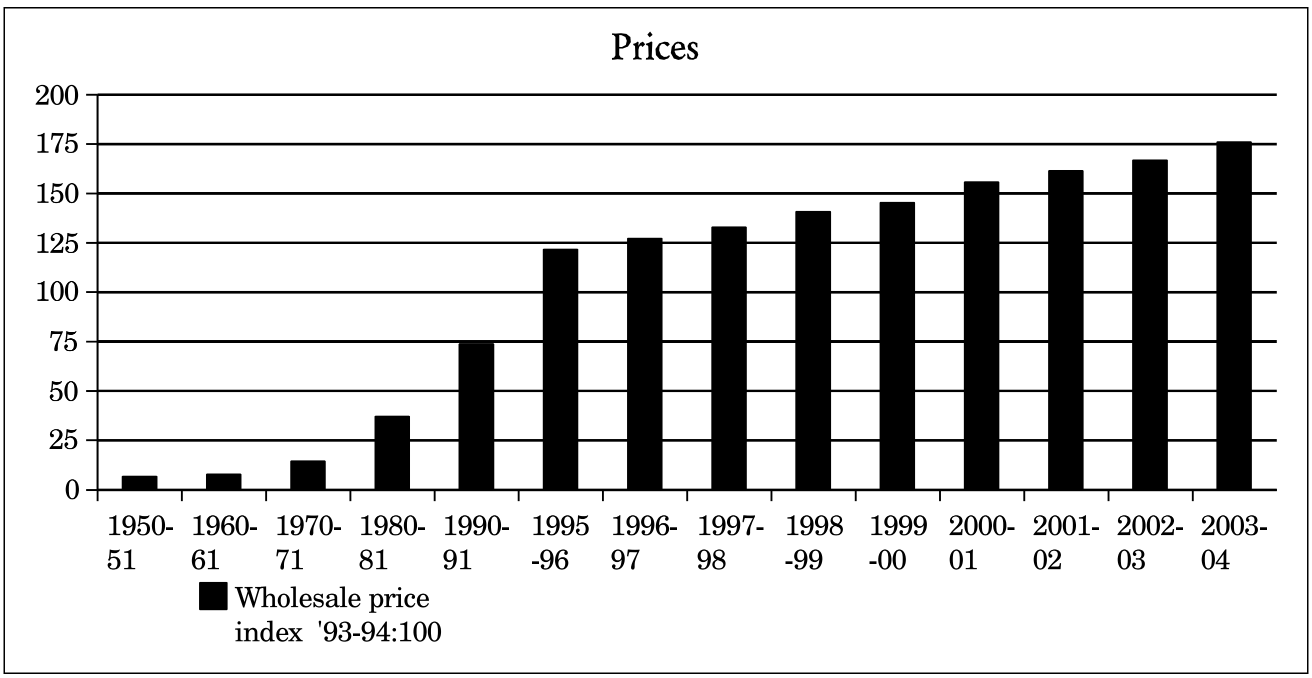
Inflation

The overall inflation rate in terms of WPI remained below 5 per cent for most of the weeks during the first three quarters of the current financial year.

Discounting the uncertainty associated with high and volatile international petroleum prices, the near and medium-term inflation risks in the Indian economy appear to be manageable. The danger of an unexpected oil price increase is ever present.



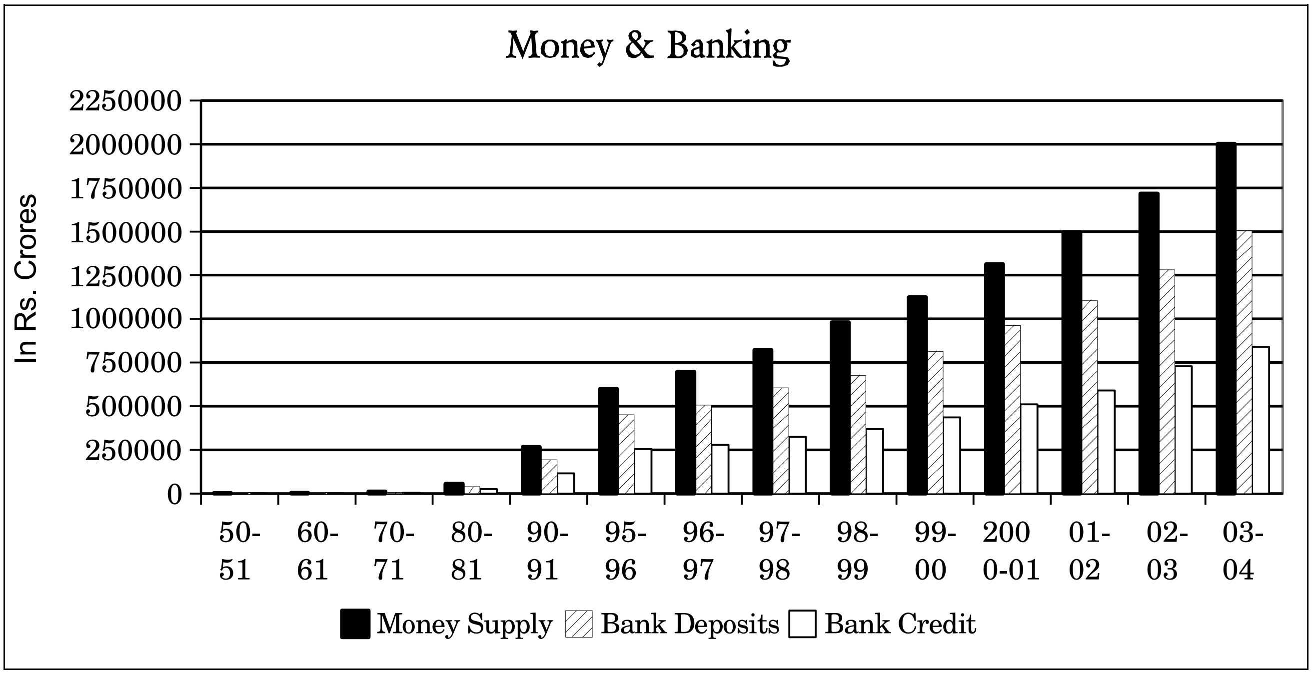
Source: Economic Survey 2005-2006 pp. 98



Source: Economic Survey 2005-2006 pp. 202

Money Market

In contrast with the difficulties of forward looking investments by bank dominated financial systems, the Indian financial system has been effective in delivering capital to areas with high prospective growth, such as software or biotech, through the equity market.

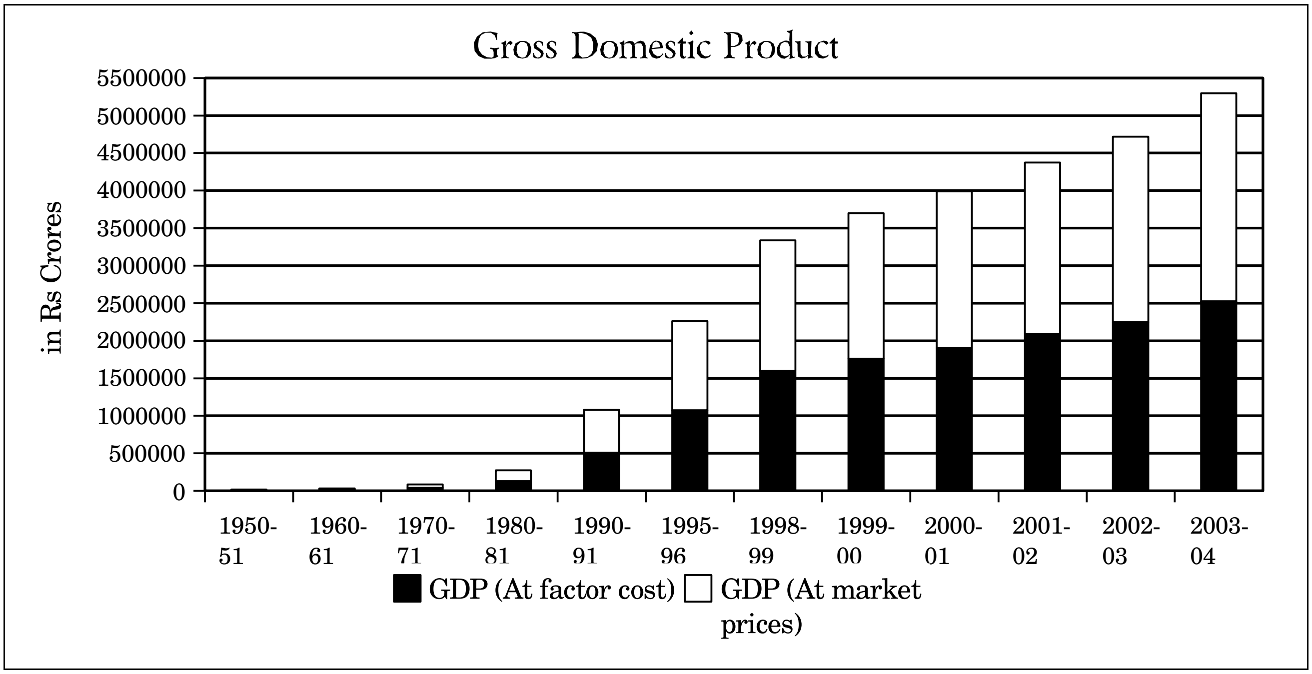


"Economic development is capital investment; you debate as to the sequence and priority in such investment-consumer or capital goods, heavy or light investment. But capital investment is what counts. Let there be no soft-headed nonsense on this score." — John Kenneth Galbraith

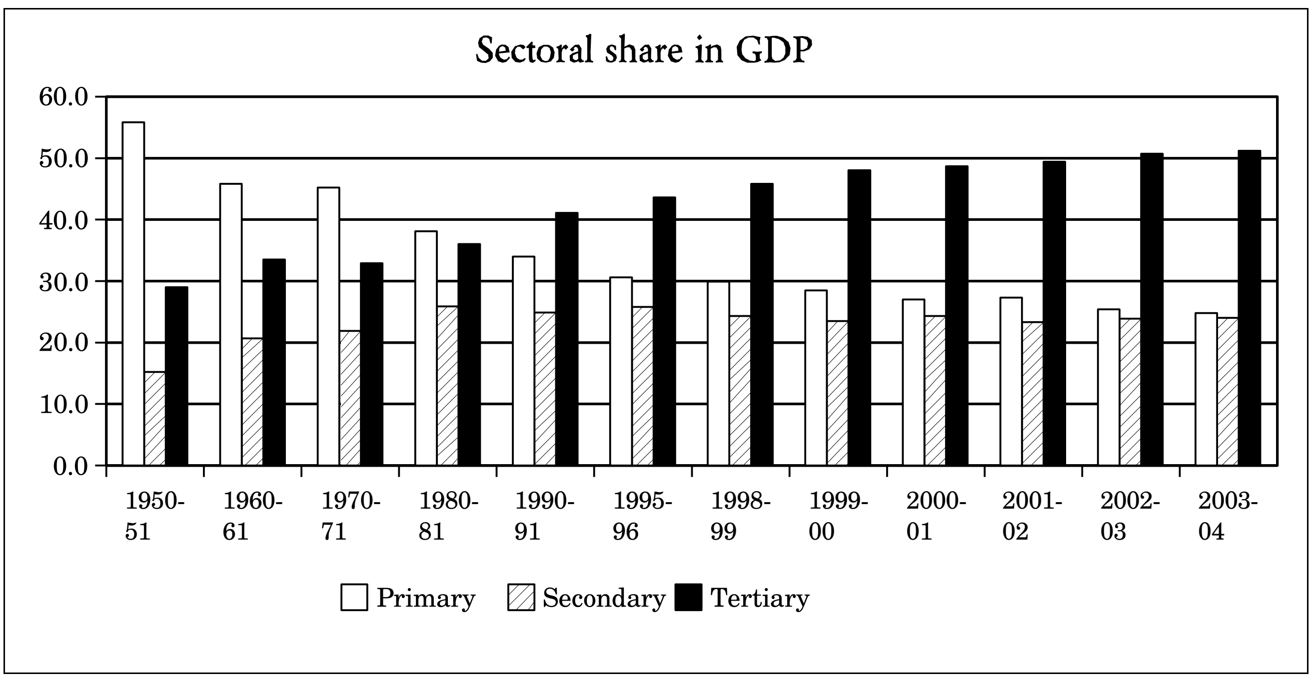
GDP Growth

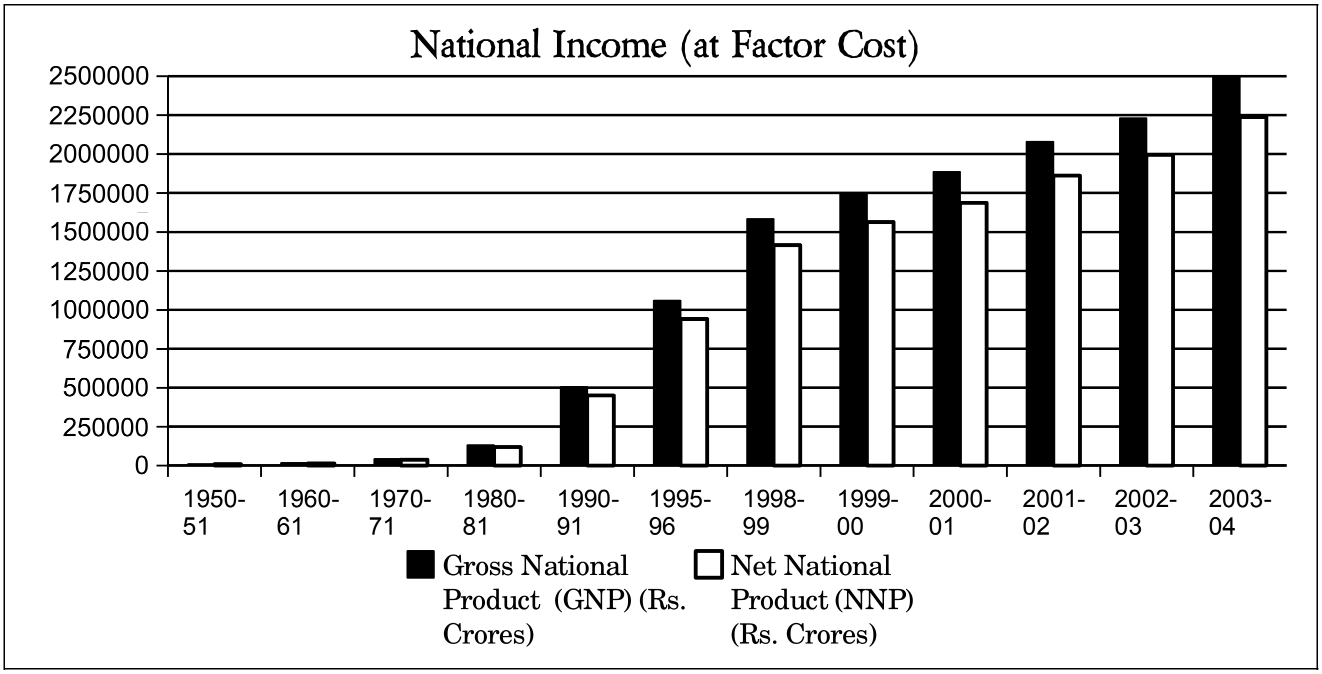
The encouraging signs of a pick up in investment and acceleration in growth pointed out by the last Survey have strengthened in 2005-06. Investment, as a proportion of GDP (at current prices), increased steadily from 23.0 per cent in 2001-02 to 30.1 per cent in 2004-05. Its continued buoyancy is manifest in the rapid rate of growth of credit and of production and import of capital goods; number and value of primary issues; and the stock price rally in secondary markets. Also, with an anticipated growth of 8.1 per cent in 2005-06, the compound average growth rate of the economy is likely to exceed 8.0 per cent in the last three years ending in 2005-06.

The odds are loaded heavily in favour of a continuation of the growth momentum observed in the last three years. A virtuous cycle of growth and savings, that appears to be already underway, is likely to continue for some years to come.

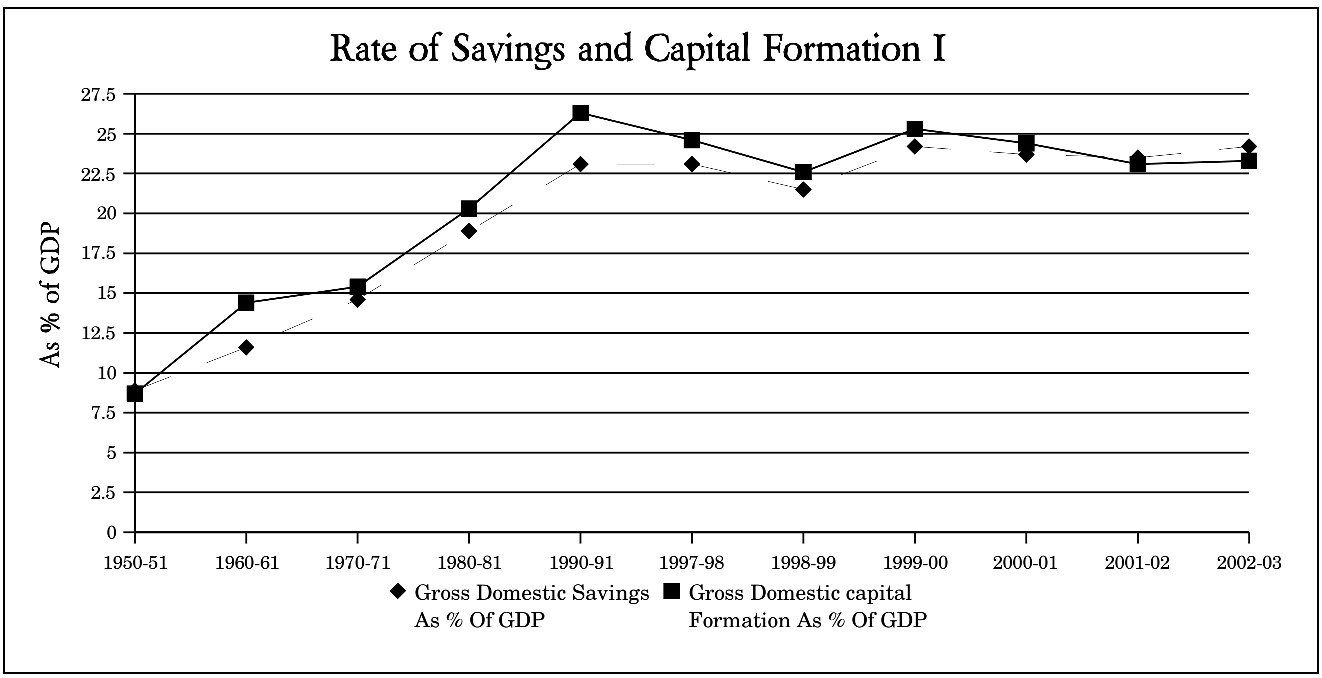


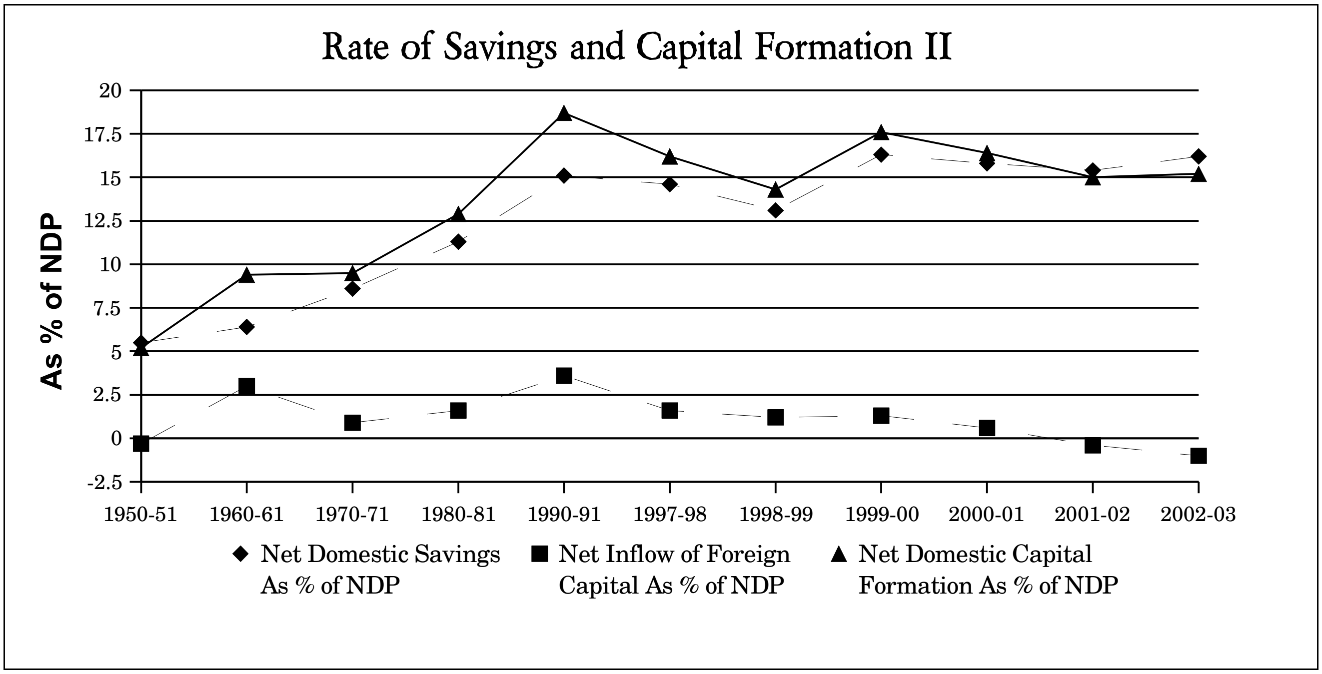
"Economic growth stems from forporate turbulence not stagnation, volatality is a counterpart to entrepreneurship and innovation" – The Economist, 28th May 1994

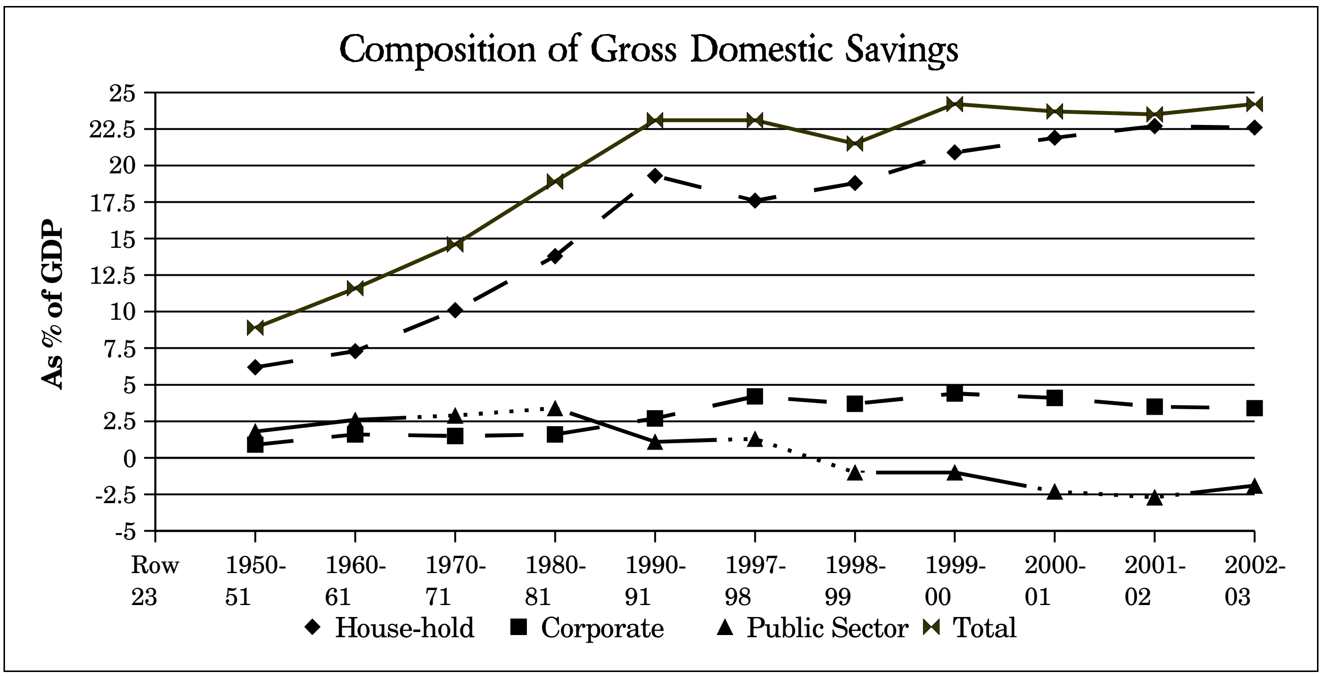


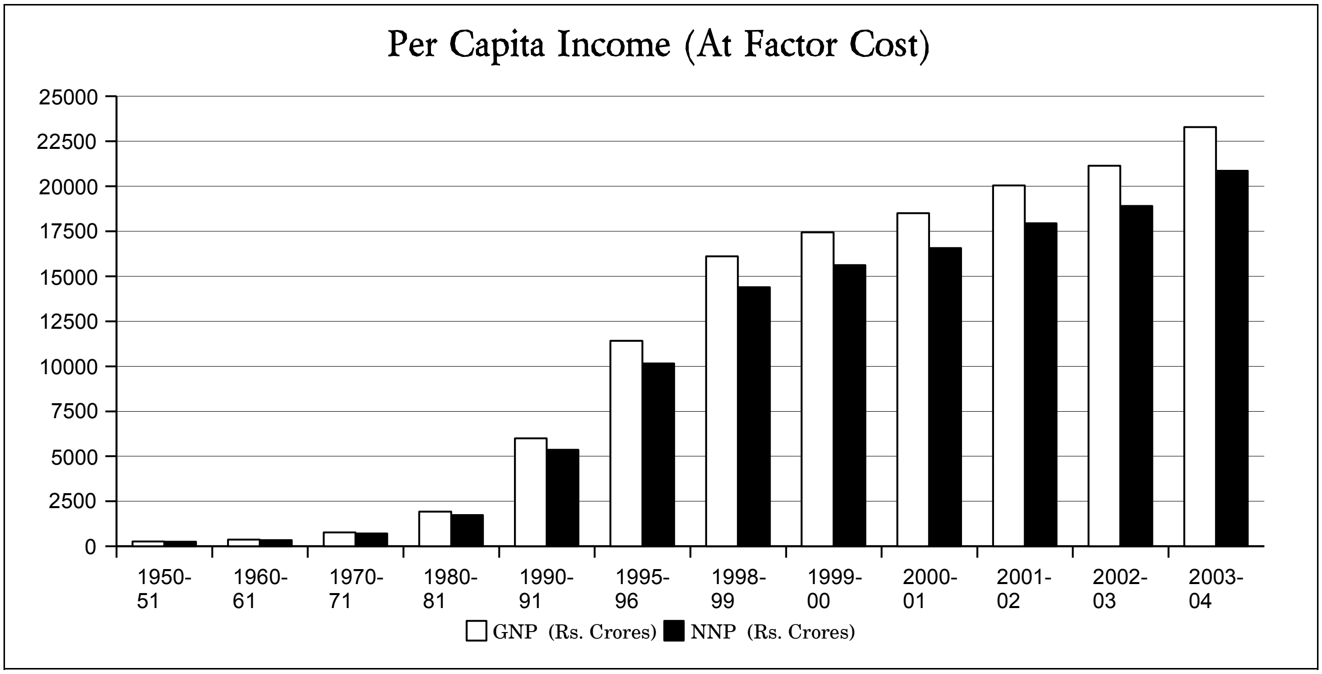


Source: Economic Survey 2005-2006 pp. 79




Rate of Savings and Capital Formation II
As % of NDP
20
17.5
15
12.5
10
7.5
5
2.5
0
-2.5
1950-51
1960-61
1970-71
1980-81
1990-91
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
Net Domestic Savings As % of NDP
Net Inflow of Foreign Capital As % of NDP
Net Domestic Capital Formation As % of NDP

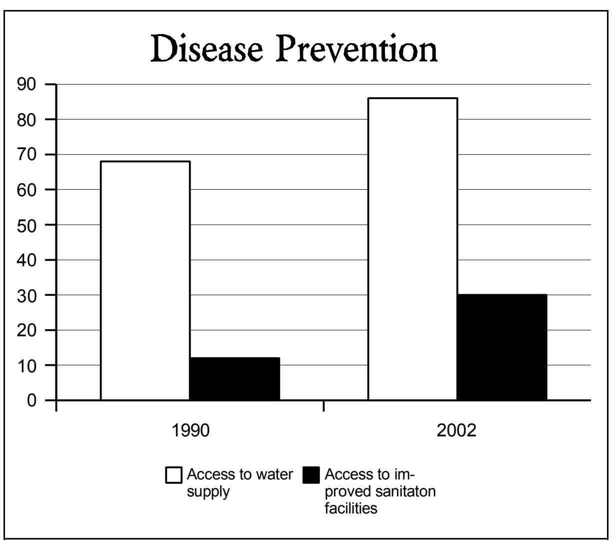

Composition of Gross Domestic Savings
As % of GDP
25
22.5
20
17.5
15
12.5
10
7.5
5
2.5
0
-2.5
-5
Row 23
1950-51
1960-61
1970-71
1980-81
1990-91
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
House-hold
Corporate
Public Sector
Total

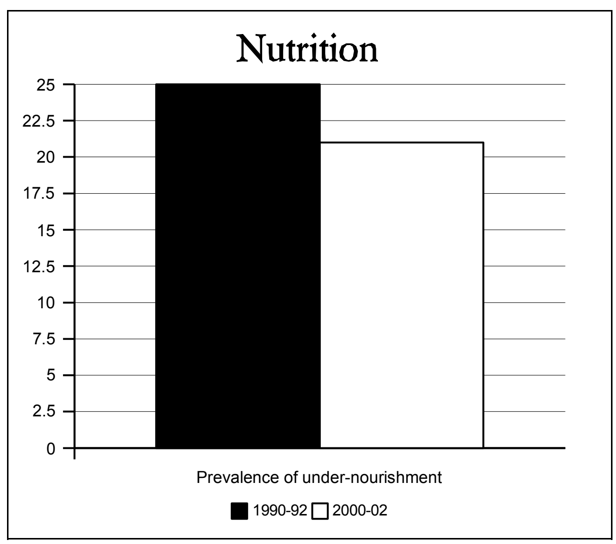


Social Goals: Poverty Alleviation

Sustained high economic growth is a necessary condition and a significant driver of human development. On the other hand, if people are healthy, educated and adequately skilled, they can participate fully and contribute more to economic development process. The Tenth Five Year Plan recognized these linkages while laying down monitorable targets for human development for the plan.

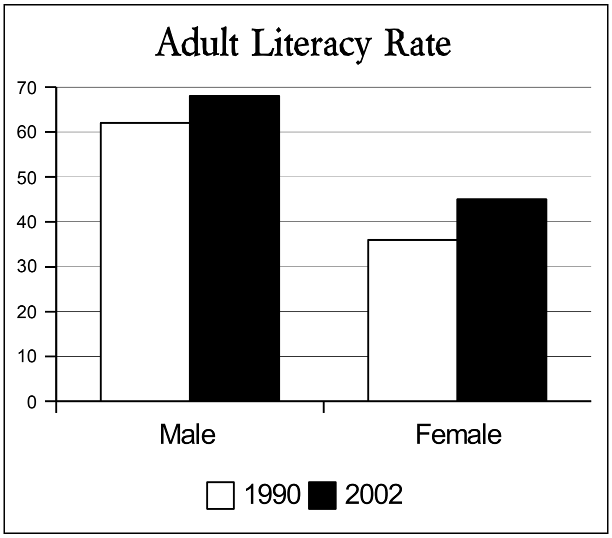
The ongoing reforms attach great importance to removal of poverty , and addressing specifically the wide variations across States and the rural-urban divide. Anti-poverty strategy has three broad components: promotion of economic growth; promotion of human development and targeted programmes of poverty alleviation to address multi-dimensional nature of poverty.

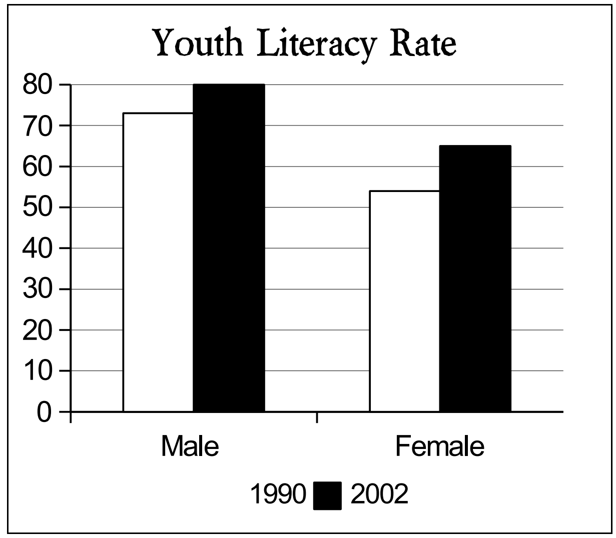




Source: Economic Survey 2005-2006 pp. (7)199

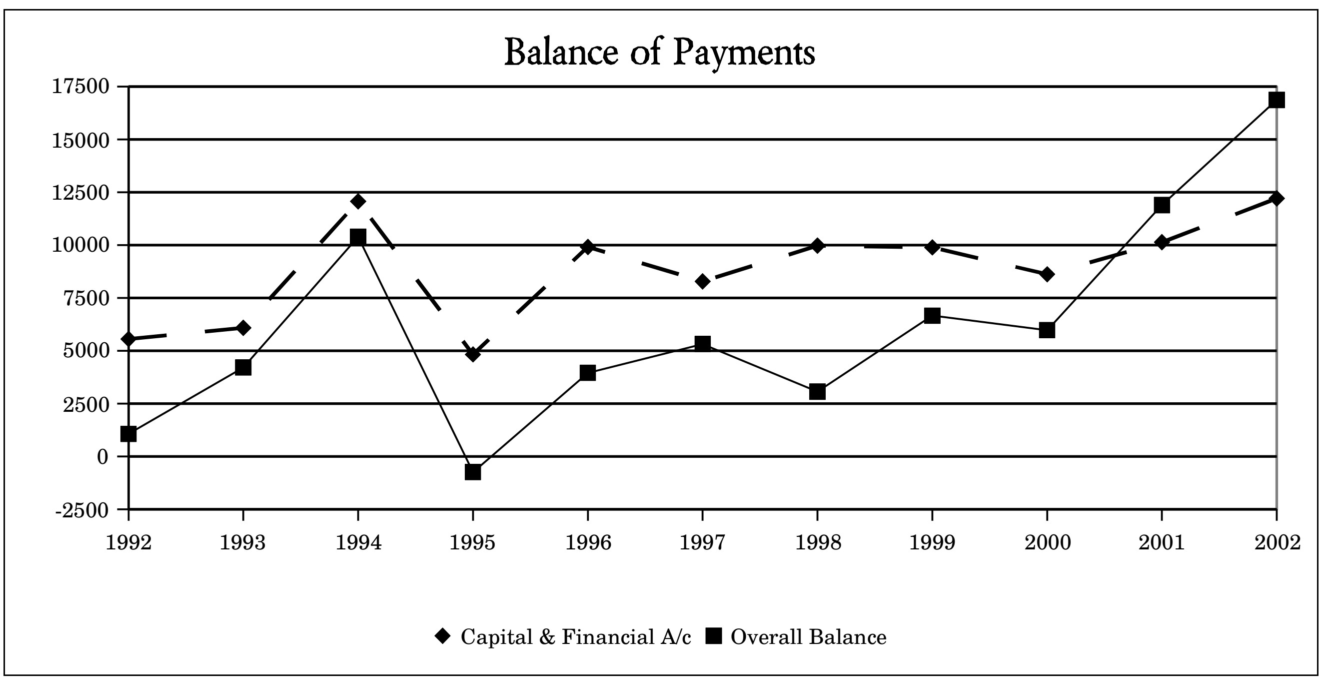
Education Outcomes

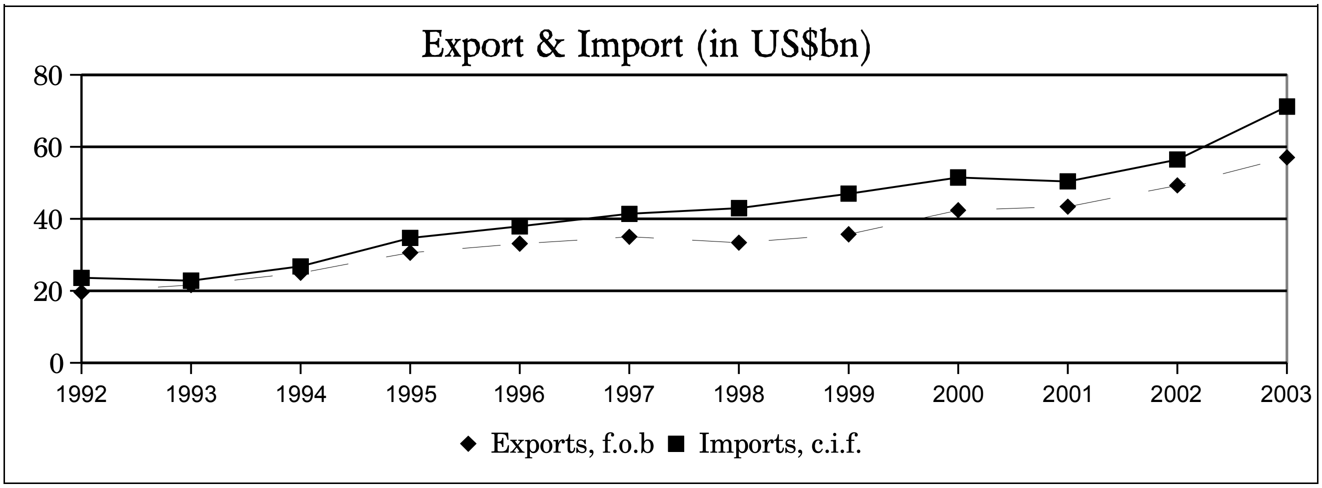


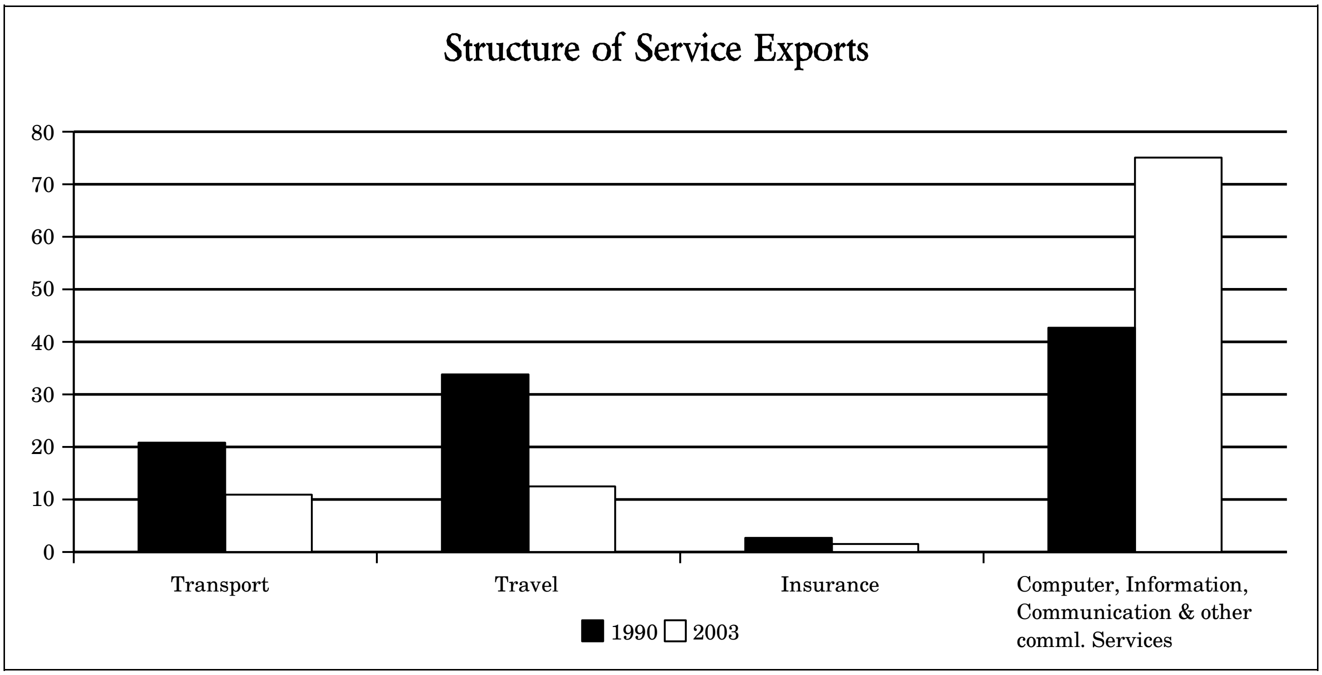


Balance of Payments (BOP)

India's balance of payments (BOP) has been undergoing a major structural transformation since 2003-04. The nascent current account deficit that emerged in 2004-05 after three consecutive years of surpluses has assumed much larger proportion in the current year. The deficit primarily reflects an excess of investment over savings, which is being financed by external capital flows. If domestic industry continues to remain upbeat, then sustained industrial demand for imports might increase the size of the deficit, as a proportion of GDP further in the remaining months of 2005-06.







Source: Economic Survey 2005-2006 pp. 175,199

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Corruption Levels in Asian Countries Seen Dropping

Transparent Continent – Index of Corruption

Indonesia	8.16	9.10
Vietnam	7.91	8.65
Philippines	7.80	8.80
Thailand	7.64	7.20
China	7.58	7.68
India	**6.76**	**8.63**
Malaysia	6.13	6.80
Taiwan	5.91	6.15
South Korea	5.44	6.50
Hong Kong	3.13	3.50
Japan	3.01	3.46
Singapore	1.30	0.65

"So, perhaps democracy explain why India, despite being as corrupt as many African failures can nevertheless egister 7.5% GDP growth. Democracy is probably good enough reason for the World Bank to keep lending to corrupt India" – Source: "Swaminomics", Times of India, 15th April 2006

"Corruption has become such a serious menace that the civil servants of India, on a select basis, will be undergoing professional training on good governance" – Source: "Harward tips for babus on good governance", Times of India April 2006

(Source : Political and Economic Risk Consultancy (PERC)

♦♦♦

"Corruption is our Protection. Corruption is what keeps us safe and warm. Corruption is why we win."
— From movie "Syriana" directed by Stephen Gaghan

Cross country Comparison of Key Economic Statistics

Compiled from CIA Factbook on Internet by Dr. VN BRIMS PGDBM II (2005-06) Students

Parameter	India	China	Japan	United States	European Union
GDP (purchasing power parity) (in million $)	3,678,000 (5)	8,158,000 (3)	3,867,000 (4)	12,370,000 (1)	12,180,000 (2)
Electricity – production (million kWh)	556,800 (8)	2,190,000 (3)	1,017,000 (4)	3,892,000 (1)	2,925,000 (2)
Electricity – consumption (million kWh)	519,000 (7)	2,170,000 (3)	946,300 (4)	3,656,000 (1)	2,711,000 (2)
Airports	333 (24)	472 (17)	174 (39)	14,857 (1)	3,130 (3)
Birth rate (births/1,000 population)	22.32 (90)	13.14 (163)	9.47 (211)	14.14 (156)	10.00 (200)
Exports (in million $)	76,230 (34)	752,200 (4)	550,500 (6)	927,500 (3)	1,318,000 (1)
Roadways (km)	3,851,440 (3)	1,809,829 (4)	1,177,278 (7)	6,393,603 (1)	4,634,810 (2)
Imports (in million $)	113,100 (23)	631,800 (4)	451,100 (7)	1,727,000 (1)	1,402,000 (2)
Industrial production growth rate (%)	8.20 (32)	27.70 (1)	1.30 (136)	3.20 (98)	1.30 (135)
Waterways (km)	14,500 (9)	121,557 (1)	1,770 (47)	41,009 (5)	53,512 (3)

Figures in parenthesis indicate ranking

♦♦♦

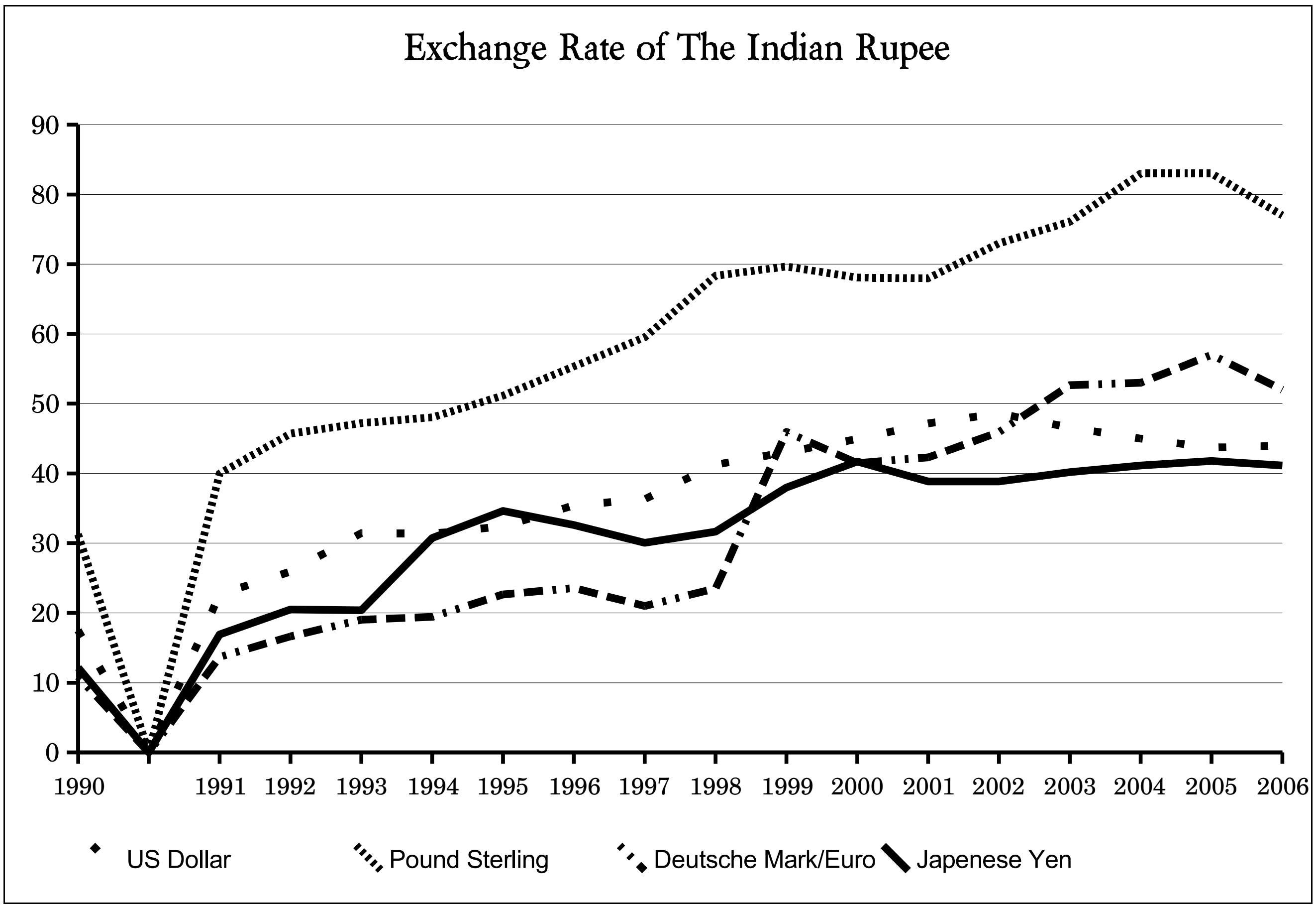
INR on Ascent

Shivani Takalkar, Dr. VN BRIMS MMS I (2005-06) Student

On Asian Crisis: *"Finally, the Asian Crisis shows that the ill-effects of weak financial and information systems are greatly magnified by full convertibility. The financial herd can stampede in and out again. The long-run solution is to have excellent information systems, good corporate governance and institution that encourage in financial markets."*

On Convertibility of INR: *"That day is, alas, a long way off. Till then, we need capital controls. We should ban or severely curb short-term debt. We should discourage non-resident Indian (NRI) bank deposits of less than two years' maturity. This will inhibit the inflow of dollars. But we now know that too little can sometimes be better that too much"*

– Swaminatha S. Anklesaria Aiyer, Swaminomics



The Indian rupee is on the rise. Its appreciation vis-à-vis the dollar began in June 2002, after it had touched a low of more than Rs. 49 to the dollar i.e., Rs. 49.07 on the 1st of June and Rs. 49.03 on the 15th of June 2002 and so on (after which it had a steady fall). During these periods of ascent, it has appreciated by close to 12 per cent vis-a-vis the dollar in 22 months (till '04). Not surprisingly, exporters have begun to get restless, since a loss of 10 per cent in the rupee price of their exports can shave off margins on past fixed-price dollar/euro contracts and make it difficult to win new orders. The rise of the rupee is partly attributable to the depreciation of the other currencies, especially the dollar against those of its competitors. That this was true for some time is reflected in the fact that while the rupee was appreciating against the dollar for close to two years, it was depreciating vis-a-vis the euro for much of this period.

Two factors have influenced this rise of the rupee vis-a-vis dollars. First, the excess supply of foreign currency, relative to demand for current and capital account transactions from resident individuals, agencies and institutions. Second, the willingness of the central bank to buy foreign currencies and add to its reserves. This was primarily driven by RBI's motive to maintain exchange parity by way of reducing excess liquidity.

The pressure on the rupee leading to its appreciation, which is feared to affect export competitiveness adversely, arises because India, which has recorded a current account surplus since financial year 2001-02, has encouraged and attracted large inflows on its capital account. However, India's current account surplus, we must note, is not a reflection of its strong trade performance. Rather it is because net inflows under what is called the "invisibles", head of the current account of the balance of payments , has been more than adequate to finance a large and recently rising merchandise trade deficit. Even while India's current account was relatively healthy on account of the foreign exchange largess e of Indian workers abroad, the country's liberalized capital markets have attracted large inflows of capital.

Three kinds of inflows have dominated the capital account:

- An early and important source of inflow during the years of financial liberalization has been in the form of non-resident Indian (NRI) deposits in lucrative, repatriable foreign currency accounts. They reflect the attempt by non-residents to exploit arbitrage opportunities offered by the higher (relative to international rates) interest rates on repatriable, non-resident, foreign exchange accounts, to earn relatively easy surpluses. The differential between interest rates paid on non-resident foreign exchange deposits and those prevailing in the international market, as reflected by the LIBOR (London Inter-Bank Offered Rate). The ceiling on interest on non-resident external deposits had earlier been linked to the LIBOR and set at 0.25 per cent above it. Now the ceiling has been set at the LIBOR itself with effect from March 2004. LIBOR rate on October'2003 was 2.15% (avg), while during the same period MIBOR was 4.92%. (Source: Historic BBA LIBOR rates)

July 17 2003	NRE Term Deposit rates capped at 250 bps over LIBOR
Sept 15 2003	NRE Term Deposit rates capped at 100 bps over LIBOR
Oct 18 2003	NRE Term Deposit rates capped at 25 bps over LIBOR

- A second important source of capital inflows has been portfolio capital flows, reflecting investments by foreign bodies, especially foreign institutional investors, in India's stock and debt markets, encouraged more recently by the disinvestment of shares in profitable public sector undertakings.
- The third important source of capital was a financial liberalization-induced increase in the net liabilities of commercial banks (other than in the form of NRI deposits), which rose from a negative \$1.43 billion in 2000-01 to \$2.63 billion in 2001-02, \$5.15 billion in 2002-03 and \$2.56 billion during April-December 2003. This is possibly explained by the expansion of the operations of international banks in the country. The ECBs at a lower rate of interest benefited the Indian manufacturers who used it to repay their costly term loans.

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In short, capital inflows that create new capacities either in manufacturing or in the infrastructural sectors have been limited. Much of the capital inflow has consisted of financial investments that expect to earn higher annual returns than available in international markets or obtain windfall gains from the appreciation of the value of such investments, as has recently been witnessed in India's stock markets. The BOP figures given below substantiates the above mentioned claims.

(Balance of payments; in $ billion.)

Items	2000-01	2002-03	2003-04
Exports, goods	45.5	53.8	64.7
Imports, goods	57.9	64.5	80.2
Trade deficit	12.5	10.7	15.5
Exports, services	16.3	20.7	24.9
Of which, software	6.3	9.6	12.2
Other miscellaneous services	3.5	4.7	4.7
Remittances	13.1	17.2	23.2
Invisibles surplus	9.8	17	26
Current account	-2.7	+6.3	+10.6
Gross FDI	4.1	5.2	4.9
Net portfolio inflow	2.6	0.9	11.4
Net aid	0.4	-3.1	-2.7
Net NRI deposits	2.3	3	3.6
Rise in Reserves	5.8	17	31.4

The RBI Bulletin for October, suggests that India's external strength is even greater than believed earlier. However, the data contains some puzzles. "India is awash with dollar for reasons still poorly understood", argues Swaminathan S Anklesaria Aiyar.

- Remittances from overseas Indians were no more than $2 billion in 1991. Since then they have soared, although the overseas Indian population has risen only modestly. A slight change of time period from 2002-03 to 03-04 has increased this figure from $18bn to $23.2 billion, i.e., close to 5% of GDP. No detailed data is available on remittances. Some studies suggest that low-skilled workers in the Gulf have ceased to be the key contributors, and more comes from high-skilled workers in North America and Europe. This still leaves people to guessing. Why are remittances growing so explosively, who exactly is sending these monies, how sustainable are these flows, and how can we safeguard these against a sudden fall/surprise run on the lines of the South Asian crisis when the Thai bath, Malaysian ringgit, Indonesia rupia and even the Singapore dollar , otherwise a strong currency were shaken. Except Singapore, all other currencies and countries were shaken to the root. This needs to become a major area of research so that neither now nor in the future the INR is a victim of some planned or unplanned actions by any person or power group.

A Harvard economist has hypothesized that the dollar flood from the US could be from Indian software engineers doing onsite work in the US. They have high earnings and have an incentive to remit these since they are returning home. But, H1-B visas for Indians have been reduced, and yet remittances are rising faster than ever.

One CII survey suggests that a majority of remittances come from Indians outside software — in finance, medicine, education and laboratories. The US census of 2002 showed a virtual doubling of the Indian population, a sign that permanent migration is rising fast, possibly accelerated by families joining a bread-winner. But why should permanent migrants remit large sums? We are still unclear about the dynamics and sustainability of remittances. (a)

- Many Indians think that software is the lynch pin of our exports. But services exports totalled $24.9 billion in 2003-04, of which barely half (12.2 billion) consisted of software/BPO. What are the other service exports? Travel and transport have always accounted for significant inflows as well as outflows. What seems a mystery, and needs elucidation, is the category called "miscellaneous services", under which software is lumped. Miscellaneous exports other than software have risen from $3.5 billion in 2000-01 to $4.7 billion last year. That is big money, and cannot be dismissed as a mere miscellany.(b)

- The third striking feature in the inflow of portfolio investments, from FIIs and NRIs. This was a mammoth $11.4 billion in2003-04, up from just $0.9 billion in the previous year and $2.6 billion in 2000-01. Markets are fickle, of course, and what goes in can rush out. (c)

We need more detailed research on the factors behind the flow, and its sustainability, according to Swaminathan S Anklesaria Aiyar.

Merchandise and service exporters fear a stronger rupee because in the absence of pricing power, it applies downward pressure on their margins. However, exporters are unlikely to lose competitiveness: although rupee has appreciated vis-a vis the dollar, most other currencies – including regional currencies – have strengthened by more than what the rupee has. Indeed, JP Morgan's inflation-adjusted trade-weighted exchange rate index suggests that despite 9% nominal appreciation of the rupee since May 2002, the real effective appreciation is only around 3% and the index's current value is well within its normal range. (1)

Also, there is no direct correlation between appreciation/depreciation of the rupee and rise and fall in exports. Exports in dollar terms grew by an impressive 17.2% in 1999-00 when the rupee depreciated by 2.9%. For the period 2000-01, when the rupee depreciated by 7.07%, exports grew by a slow 1.7%. In 2001-02, when the rupee depreciated by 4.78%, exports crawled up 1.74%. The trend continued in 2002-03. Contrary to expectations, however, exports registered their highest growth of 11.06% in the April-June 2003 quarter when the rupee appreciated by a high 2.11%.(2)

What is far more important in the Indian context is that a higher rupee will lower the cost of imported energy (oil) to a very significant extent. The appreciation may also be viewed as a big incentive for our industry. That is because energy enters as a large part of the total production cost of manufacture and transport services. The cost of that should fall, as should those of other imported inputs too.

Thus, an objective and overall, assessment of India's external trade sector should allay expectations of a major fall in exports.

Again, due to the appreciation of the rupee, the rupee value of foreign loans taken by the government and private firms will fall as well, easing repayment and servicing. That in turn will benefit the economy's balance on the capital account and also induce a fall in the cost of external borrowing. That should lead to a greater demand for external financial resources which, in turn, could be ploughed into infrastructure building. More physical infrastructure would also bring investment into non-agricultural activities, widen their spread and build up a viable and diversified environment economically. This would lead to a more equitable growth, also, setting up of infrastructural facilities would create more employment opportunities.

With expansion in the spatial dimension of growth, regional disparities tend to fall, and the disadvantages associated with population movement too decline. But all this is conditioned upon expansion in infrastructure.(3)

To add to the kitty, fuller capital account convertibility has been proposed by the Government. India's forex kitty has been steadily growing, it stood at $143.92 billion for the week ended March 10' 2006. The Indian rupee has been ruling below Rs.45 a dollar for the last six months. The government, bankers and corporates feel the time is right to go for full capital account convertibility. “Our position, internally and externally, has become far more comfortable. Given the changes that have taken place over the last two decades, there is a merit in moving towards fuller capital account convertibility within a transparent framework”, said our Prime Minister in a gathering at the Reserve Bank of India on the 18th of March'06 after releasing the third volume of the Central Bank's history. Full convertibility of the Indian currency means that the rupee would be made freely exchangeable into other currencies and vice-versa. Also, it will facilitate the transformation of Mumbai into not only a regional, but also a global finance centre.

Hence, it can be said that though rupee on ascent requires a constant vigil – eternal vigil is the price for liberalization, it has also got many silver linings!

Sources:

(a, b, c) -- Three kinds of dollar avalanches, Economic Times, Swaminathan S Anklesaria Aiyar.

(1,2,3) -- 14th December, ET; “What does appreciation of the rupee entail?” Perspectives by: Dominic Price, MD, JP Morgan, Rafeeque Ahmed, President, FIEO and Arup Mitra, Professor, Institute of Economic Growth.

Table 1: RBI Bulletin, October 2004.

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Twelve Themes of New Economy

According to Don Tapscott in his ground-breaking book "The Digital Economy" a dozen overlapping themes are emerging that differentiate the new economy from the old one. By understanding these you have the precondition for transforming your business for success.

Theme 1: Knowledge – The new economy is knowledge economy. In the new economy the key assets of the organisation are INTELLECTUAL ASSETS, and they focus on the KNOWLEDGE WORKER.

Theme 2: Digitisation – In this new economy electronic signals 0s and 1s can be used to represent almost anything from TEXT, AUDIO and VIDEO and anything else you care to imagine.

Theme 3: Virtualisation – As information shifts from analogue to digital, physical things can become virtual.

Theme 4: Molecularisation – The new economy is a molecular economy. The old corporation is being disaggregated, replaced by dynamic molecules and clusters of individuals and entities that form the basis of economic activity.

Theme 5: Integration and Internetworking – The new economy is a networked economy, integrating molecules into clusters that network with others for the creation of wealth.

Theme 6: Disintermediation – Middleman's functions between producers and customers are being eliminated through digital networks. Middle business, functions, and people need to move up and create new values or risk being eliminated.

Theme 7: Convergence – In the new economy, the dominant sector is being created by three converging industries that, in turn, provide the infrastructure for wealth creation by all sectors. The three are:

- Computing
- Communications
- Content Industries

Theme 8: Innovation – The new economy is an innovation based economy.

Theme 9: Prosumption – This comes from PRODUCTION and CONSUMPTION (a new term coined by Don Tapscott). In the new economy the gap between consumers and producers blurs. Mass production is replaced by mass consumption.

Theme 10: Immediacy – In the new economy immediacy becomes a key driver and variable in economic activity and business success. The new enterprise is a real time enterprise, take EDI (Electronic Data Interchange) as an example.

Theme 11: Globalisation – The new economy is global economy.

Theme 12: Discordance – Unprecedented social issues are beginning to arise, potentially causing massive trauma and conflict.

It is very important that the leader, supervisor/manager pause and think hard about the new economy that is here and you must change and adapt quickly.

♦♦♦

New Landscape of Business

Dr. Guruprasad Murthy

We are living in a world of rapid change – an epoch which has witnessed, in the recent past, a total change in the business landscape. This landscape is likely to experience greater changes in the none too distant future, standing as we are on the start of the new millennium. It is therefore a right time to take stock of the changing business scenario and the challenges, posit on account of this new emerging scene, to enterprise, educational institutions and society at large which need to gear themselves, may be innovate or totally remodel themselves, to meet the emerging needs proactively and preferably up-front.

In the circumstances, it is necessary to first understand the new, emerging, business landscape. There are at least three critical areas where change is likely to be experienced. Of course these three areas are by no means exhaustive. They are however illustrative and nevertheless critical. The three areas, which have contributed to bringing about a major change in the landscape of business include:

- Innovation
- Information Revolution
- Importance of Knowledge Management, Systems and Processes

Each one of the above issues will be discussed in turn.

Innovation

"The process of bringing a new idea – one that solves problems or addresses opportunities – into use." — Rosabeth Kanter

Innovation is assuming a critical role in deciding the competitive edge of every entity in society – individuals and institutions. Enterprise or any segment of society cannot escape the need for innovation if they have to stay in their respective businesses. More important than 'mere innovation' is its transmission to the end user in as short a time as possible. And this poses the greatest challenge – creativity by provoking the human genius of the organisation at work, generation of an idea, innovate, make it commercially viable and transmit it to the end users within decreasing reaction of time. There is very little choice because:

'if you don't do it or we don't do it someone else will'.

As the saying goes :

'have your lunch before someone else has finished with it'.

The race is then lost for that portion of the transaction. Speed is the key factor and radical changes through innovation are likely to occur frequently and rather unpredictably. Frequent changes mean that the market place will be crowded with new products, and designs in quick succession. Automobile manufacturers in the US used to take about 6-8 years to come out with a new design in the late eighties and early nineties. The Japanese reduced this cycle to less than 40 months. And the latest record by Toyota is 16 months. While this may be a benchmark as of now if Toyota does not improve its own performance some one else will. Innovation stems from creativity. Corporates are attempting to foster a culture that makes creativity a part and parcel of day to day activities. Such a culture will then enable the culmination of creativity into innovation leading ultimately to competitive success or the winning edge.

Creativity is :

- The result of using imagination in lieu of routine skills.
- Capacity to imagine new, useful and viable solutions to problems.
- A drive or initiative to see things in a different light or in a form other than they seem.

Lateral thinking

"When a low probability line of thought leads to an effective idea, there is a eureka moment and at once the low probability approach acquires the highest probability". - Edward de Bono

There are other names in the business world that have made creativity a part of their culture in order to be able to ride at the crest of the waves of innovation. To mention but a few - the 3M, Bell Laboratories, Apple and General Electric. Sony another important player in the corporate world and a leader in consumer electronics comes out with a 1000 new products every year – 800 being new versions of existing products. However, 200 are totally new. Similarly Hewlett Packard with its mammoth size (US$24 billion sales and 96,000 employees) continues to baffle the industrial world through its new launches which few can match.

At 3M where 25% of profit from every division should come from products which did not exist five years ago there are some ground rules for innovation:

- Stay close to the customer
- Share the wealth
- Don't kill a Project
- Motivate the champion
- Keep division small
- Tolerate failure

Indian Scene - The Globocorps of India

Closer at home only 5 Indian Companies rank amongst Asia's most competitive Companies after 50 years of Independence. They are Reliance, Ranbaxy, Sundaram Fasteners, Arvind Mills and Bajaj Auto. Each one of them has adopted a different approach to achieve their present status – Reliance through scale of operations, Ranbaxy through carefully targetted global segments or niches. Sundaram Fastners through Innovation and Quality. Again Arvind Mills strategy is 'Focus' and that of Bajaj Auto guided by cost leadership. No matter what guiding principles motivate competitive success, all these globocorps have been the beneficiaries of innovation – internal or external to the firm. We are talking here of Asian Companies. If we substitute the Global Scenario for the Asian one, of these 5 many if not all may be out of the list. Hence, Indian corporates need to go a long way before they can establish an identity in World markets may be quality, IT excellence or sheer volume. However a few Indian companies are among the world's top using one criteria or the other as shown below:

Global Capacities of some Indian Companies:

- KEC International, an RPG Group company, is the world's second largest producer of transmission towers.
- The Aditya Birla Group is the world's largest producer of rayon fibre, and the second largest producer of palm oil.
- Bajaj Auto is the third largest two-wheeler producer in the world.
- Arvind Mills is the fifth largest producer of denim in the world.
- Lupin Laboratories is the world leader in the anti-TB drug, ethambutol, with 70 percent share in the world market.
- Hero Cycles is the world's largest producer of bicycle.
- Raymond Mills is the fifth largest manufacturer of worsted suiting.
- Nirma is the world's largest producer of detergents.

Source: Madhukar Shukla *Competing through Knowledge-Building a Learning Organisation*, 1997, pp 43

Innovation as Key to Success

It is a well known fact that innovation and economic development are closely co-related – a la Schumpeterian economics. Human capital is the source of innovation in organisation. In fact in Singapore Airlines productivity is defined as:

'the genius of the organisation at work'

Human capital grows in two ways : one when the organisation uses more of what people know and two when more people know more about inputs that can be useful to the organisation. In fact, people stay committed so long as they are provided with an interesting and challenging work which entails opportunities to innovate. Innovation helps in developing a unique, special and exclusive know-how capable of attaining and maintaining the competitive edge for business. In fact, the IT revolution in recent times is spoken of as the 'Third Industrial Revolution' and the changes expected in the years 1997-2010 may be 30-40 times the changes in 1984-97. Hence, speed is of critical importance because changes are dramatic, radical, frequent and unpredictable. Through innovation, corporates will have to unleash a new renaissance of discovery and learning to realise the aspirations and cherished dreams. Technologies will have to explore, convey and create knowledge as never before.

Innovation is the process which helps to provoke the scientific and creative skills and improves the quality of life through new sets of goods and services in the market place. Innovation can be cross functional, cross sectional and cross disciplinary. In fact, innovation is at its best when it is a result of effective cross-materialisation across the entire corporate network and beyond. Again innovation led transformation is usually one time change. Hence exploiting the innovation in decreasing reaction of time is a challenge to management. Speed is of critical importance in capturing innovation to help enterprise in attaining and maintaining its winning edge. Ability to exploit innovation depends upon the scarcity value, appropriability and effective demand for the end product of innovation. What makes a resource valuable is the dynamic interplay of the three fundamental market forces listed and shown in Annexure 1.

Information Technology (IT) Revolution

The Second factor is 'Information Revolution' – or 'Information Explosion', Computers are to play a greater role than ever before. It is expected that by the year 2010 the number of computers in use will be three to four times larger than the number in use today. It is predicted that the wireless communication devices will be at least 40 times more than today. These connections are estimated to increase form the present circa 40 million to about 1.6 billion. The Internet is another institution with which we have to negotiate and reckon with. Currently on a global scale about 80 million people are using it. By the year 2000 nearly 700 million people are likely to use it. By 2006 it would multiply manifold. The power of the machines cannot be forgotten either. It is projected that by the year 2010 the chips used will be at least 150 times more powerful than those that were in use around 1997-98. The greatest challenge for corporates is to channelise and translate the benefits of the informatics revolution into meaningful goals. Today, worldwide society is narcissistically hypnotised by the prowess of the computer and the Information Technology Revolution. Never before perhaps has it been 'Man for Science' instead of 'Science for Man'. Sir Bertrand Russel had cautioned people at large on the Impact of Science on Society and the possibilities of man as a cog in the wheel in the modern age science and technology.

People spend most of their time in finding information, little time in converting the information into knowledge and still very little time in using that knowledge for decision making. There has to be some education and training for improving this mix. The issue of converting knowledge into wisdom does not figure in the agenda at all. Hence the theme knowledge management.

Knowledge Management

Leveraging the benefits of IT Revolution and using it as a valuable resource that can be converted into meaningful business results is the greatest challenge before corporates, business schools and all segments of society at large. Arising out of Innovation and Informatics Revolution is the third issue viz. knowledge management – in other words managing the intellectual capital or properties. Innovation stems from creativity which in turn has its roots in the human genius.

The potential for creativity and the prowess of the Informatics Revolution together represent the storehouse of inputs that need to be managed. Hence a new dimension to management namely managing intellectual capital or knowledge and knowledge based systems and processes that cut across functional areas of management, different steps governing the management process, and last but not the least, nations that have become borderless. Thanks again to the IT Revolution. The primary advantage that Toyota enjoys vis-à-vis its competitors is development and transmission of knowledge across the entire Toyota network. Chaparral Steel is another example which has set world records for productivity. This phenomenal success is attributed to its positioning as a learning organisation that pays a lot of attention to 'Organic learning and knowledge building system'.

Chaparral Steel Company, USA since its inception (1973), Chaparral Steel has become a Global productivity leader in the intensely competitive steel industry. Employing over thousand people, company manufactures… steel products for, among others, the construction, automobile and defence industry.

As an example of the benchmark position, Chaparral uses 1.3 hours of labour to make 1 tonne of rolled steel whilst best comparable plants in the US, Europe and Japan average well over 5 hours. And, according to a case study in the Work in America, the company is an integrated learning organisation, one of the world's lowest cost steel producers, and a best practice benchmark for employee participation in HR sub-systems viz employee involvement and team-based activities, labour management partnership, integration of technology and social systems and communication and information sharing.

The new landscape has to address the above issues in the overall context of globalisation, increasing liberalisation and de-regulation all over the World Corporates can no longer isolate themselves in the cubicles of sheltered domestic markets. Globalisation is an integral part of a company's strategy and it has come to stay in this new landscape. What are the outcomes of the new landscape and the concomitant ingredients? There are at least two outcomes: Discontinuous change and a high degree of unpredictability or uncertainty. This process of change saw the light of the day around mid-nineties. The problem is not mere change but change at a very rapid pace. Corporates have no choice – either be on the move in the required direction at the required pace or be left out if not run over. As the American Philosopher Will Rogers puts it:

"even if you are on the right track, you will be run over if you stand still"

No wonder that in 1984 the top corporates on the list were Apple and IBM. However these companies had to make place for Microsoft and Compaq. In time to come there will be further replacement. This is true for Citizens, Corporates, Countries, Continents and Civilization.

"Downfall of civilizations did not occur because of invasions or disasters but because of their own success". - Arnold Toynbee

To cope with the challenges emerging in this new landscape corporates need to develop abilities to manoeuvre strategies that is to say strategic flexibility to launch timely, pre-emptive moves.

The global experience shows that corporates are investing heavily in the human capital to achieve and acquire the competencies required to face the challenges of the new, rather dynamic, business landscape.

Thus knowledge management is the buzz word haunting the entire network of businesses across the globe. Since corporates are investing heavily in intellectual capital it is necessary to understand the theme underlying Knowledge Management. It is a well known fact that knowledge is the end product of learning and competing through knowledge means competing through continuous development of learning capabilities In this context knowledge management means and includes:

Capturing, Storage, Disseminating, Communicating and Synthesizing of knowledge based competencies.

Thus Knowledge Management process embraces:

- Capturing – pulling, searching, data entry/OCR
- Storing – linking, indexing, filtering
- Disseminating – pushing, publishing, notifying
- Communicating – sharing, collaboration, group decision making
- Synthesizing – analysing, creation, contextualisation of knowledge based competencies.[†]

It is necessary, at this stage, to distinguish between data, information and knowledge. Data refers to the raw material fed into the data warehouse of business for purposes of creation and conversion into meaningful information. Business transactions entered during a given period is an example of the raw material inputs. When these transactions are entered into the journal and ledger and eventually converted into a trial balance, we have an excellent example of data compiled, converted and created into a meaningful format. Knowledge is one step ahead. It informs and shapes data and information and is person specific, purpose specific, situation specific. Whereas data and information can be structured and codified to provide uniformity in content, knowledge is diverse, dynamic and discipline driven. Hence, it is unwieldy to structure. When the trial balance along with the adjustments are converted into the financial statements like the Profit and Loss Account and Balance sheet, we have knowledge about the economic health of a business. With the same set of information, depending on the

† *Business World, 26 Nov-6 Dec 1998, pg 22*

assumptions made, different approaches could lead to a presentation of states of health. When this knowledge is further converted into higher level understanding of the health of the business through various managerial accounting and finance tools and techniques, we land up with a very diverse and unwieldy knowledge structure. This is capable of being interpreted in different ways depending on so many diverse factors including cultural factors, values, attitudes, beliefs, experiences, practices, mindsets towards risk and learning disciplines. The final stage of understanding is through wisdom which is defined as:

"Power of critical, practical, judicious, sagacious, prudent, sensible, discrete, alert, crafty application of knowledge and experience."[*]

Knowledge itself could be explicit or tacit. It could also be cultural knowledge. Explicit knowledge is easily transferable across the network of people and places. Examples include rules, regulations, specifications, mathematical formulae, accounting ratios et. al. In fact this is known as declarative knowledge and includes the typical inputs provided in training sessions intended to hone hard skills. Tacit knowledge on the other hand is implicit and is relatively difficult to articulate and transmit across people and places. Tacit knowledge has two dimensions namely technical dimension and cognitive dimension. The technical dimension relates to the mechanical skills like the master craftsman or the surgeon with deft and dexterity. In both these cases, articulating the scientific or technical principles behind their respective skills is extremely difficult. Thus the cognitive dimension of tacit knowledge consists of "schemata, mental moods, perceptions" and above all factor endowments of nature in terms of hand skills or skills specifically related to the acts mastered. Cultural knowledge includes values, beliefs, assumptions, conventions and expectations that assign value and significance to existing and new information. Members of a group who have a common culture recognise the salient features of such new information and evaluate the interpretations and actions.

Organisational knowledge is what we are concerned with and this takes place at three levels viz. the individual, the group and the organisation. Thus knowledge management in an organisation is the totality of human assets, intellectual capital and other assets - both infrastructural and market.

Knowledge – Functions and Residence

Knowledge informs, grows, insures, strengthens, quickens, safeguards, empowers, enriches and protects the bottom line. Further knowledge resides in people, databases, knowledge bases, filing cabinets, experiences, insights and archives. Research shows that 42% of the knowledge based gets locked in peoples mind (tacit knowledge). 11% gets released as part of data base (explicit knowledge). The challenge lies in capturing tacit knowledge and making sure that it resides locally in an organisation. Organisations need to make sure that loss of knowledge, due to untapped repository of tacit knowledge, is minimised and that knowledge residing in persons is transmitted to institutions or organisations on a regular, preferably, on an on-line basis. This will improve the accessibility of people within an organisation to knowledge and knowledge based inputs. Knowledge therefore needs to be harvested by eliciting tacit knowledge (one to one interviews and focus groups) and mining explicit knowledge (documents and processes). Thus eliciting tacit knowledge and mining explicit knowledge become the driving factors for successful management of knowledge.

- Through these processes organisations are able to create,
- Organise, pack and market 'Knowledge Assets.'

Based on response from the markets (end users) performance of the 'Knowledge Assets' are improved, new capabilities are identified and strategic changes are initiated to launch newer and newer knowledge assets. In fact, as the APTECH annual report says:

'The world is moving towards productising the acquisition, storage, dissemination and usage of knowledge within and across enterprises and communities.' Ontologic products are therefore being designed and launched to subserve the cause of Knowledge Management.

Enterprise should know what they know, make most of that knowledge, should improve speed,

* *Webster's dictionary*

efficiency, profitability, competency and thereby improve the competitive edge.

With knowledge management as the driving force, organisations would like to continually expand its capacity to create its future. This is indeed the meaning of a learning organisation. As Ross, Smith and others put it in 'The Fifth Discipline' Field Book (1994).

"Learning in an organisation means the continuous testing of experience, and the transformation of that experience into knowledge – accessible to the whole organisation and relevant to its core purpose."

How Corporates View Learning Organisations?

Continuous learning is a necessity. Learning also reduces arrogance - Motorola

We shall be a vibrant learning organisation - Larsen and Toubro Ltd

Aptech is a knowledge company - Annual report

Rate of learning linked to competitive edge. - Analog devices, USA

Learning organisation is ideally suited for future businesses - Hindustan Motors

Learning across the network of the business enables enterprise to

- Attain and maintain a winning edge
- Continually improve productivity
- Fosters an environment which conduces creativity and encourages the spirit of innovation.

According to Peter Senge through learning:

- We recreate ourselves
- We are able to do something we were never able to do
- We re-perceive the world and our relationship to it
- We extend our capacity to create, to be part of the generative process of life. There is within each of us a deep hunger of this type of learning.

If an enterprise has to maintain its winning edge through effective knowledge management exercises, it needs to develop knowledge based competencies which include inter-alia technological know-how, product design skills, problem solving expertise, personal creativity and ability to innovate.

Since our environment is characterised by change that too rapid change, the rate of learning in an organisation must be more than the rate of change in the environment. This alone guarantees survival to start with and success afterwards. In any organisation it is the people who create the intangible assets which drive the performance. These intangible assets include non physical assets, distinctive competencies and special relationship. The triumph of intangibles is seen in market sentiments too. In the United States, in 1992, General Motors had sales of $125 billion. Microsoft had $2 billion. Yet market capitalisation of Microsoft was higher than General Motors. Similarly, TISCO brings with it a heritage of more than 100 years and in 1998, TISCO was slated as available for roughly Rs. 3000 crores with assets worth Rs. 3353 Crores. On the other hand, Hindustan Lever (owns) barely Rs. 2000 crores of assets. The price tag though, is a whopping Rs. 30,000 crores.[§]

Knowledge Management in Indian Corporates

TISCO

The company has initiated a knowledge management programme to systematically and formally share and transfer learning concepts, best practices and other implicit knowledge.

INFOSYS

Infosys a knowledge management intensive company leverages know-how, innovation and reputation to achieve success in the market place. Here knowledge management includes tracking fortune 500 customers, monitoring repeat business, putting people on balance sheet, improving the education levels of employees and bringing value addition per employee. At Infosys, knowledge management includes classifying the assets as intangible, internal and external assets. Internal assets consist of systems, technologies, methodologies and processes and tools. External assets include market related intangibles. e.g.

§ *Business World, 26 Nov-6 Dec 1998, pg 22*

Customer loyalty and brand value. At Infosys, intangible assets are further classified into human resources, expertise, innovation, leadership, entrepreneurship and managerial skills. Intellectual property rights include know-how, copyrights, patents and products and tools owned. It may not be out of place to mention that there are several other Indian examples like TISCO and Infosys. We have BPL, Reliance, Godrej, Aptech et. al., which are good examples of learning Organisations practising knowledge management consciously to subserve the 'Corporate Objectives.'

Knowledge Management and Competitive Edge – Survey

A survey was conducted to ascertain the impact of knowledge management on various aspects of conceptual and operational needs of corporates. The three main areas included potential role of knowledge management, benefits expected and actually realized and why benefits failed to meet expectations. The outcomes of the survey are self explanatory and are presented in Annexures 2 to 5.

Thus as Alvin Toffler says:

"The next wave is going to be a knowledge based system. Knowledge will become ultimate substitute for all factors of production since knowledge is exhaustible". - Alvin Toffler

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4) Peter Senge, Interview in "The Learning Organisation made plain" Training and Development, Oct 1991.
5) BMA Review, Learning Organisation, Nov 2000, Volume. 11, No.6
6) Dr. Guruprasad Murthy Competing through Knowledge presentation made on 9.10.2001 to Human Development Study Circle, Bombay Chartered Accountants' Society
7) Dr. Guruprasad Murthy Working papers on Knowledge Management and Learning Organisation, Emirates Airlines, Dubai, UAE
8) Abhaya P, Ganesh. A, Saravana Kumar – A White paper presentation on knowledge management TSG (R&D) KM team, Pentasoft Technologies Ltd., India.
9) Dr. Indu Saxena, Corporate Culture and Organisational Performance, Management Review, March 2000 (pp. 51-61).

Annexure 1

A living example of a corporate, which satisfies all the three requirements mentioned in Annexure-1, is South West Airlines (U.S.A.). No matter what Continental and United Airlines do to mimic South West Airlines, the organisational capabilities of South West are unimitable because "These exist in a complex web of social interaction and may even depend critically on particular individuals".

It is difficult for any airline to reproduce South West culture of fun, family, frugality and focus*.

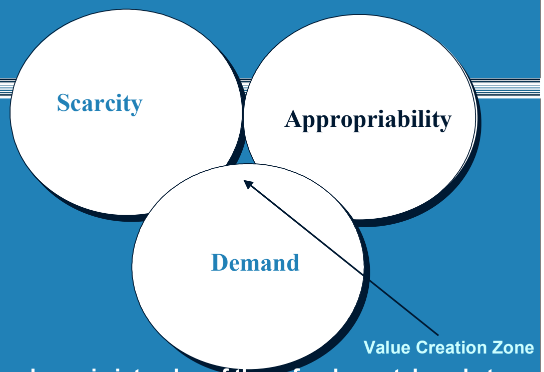
♦♦♦

"Firms in the future will create multi-ethnic and multi-cultural management scene… strategic leaders should emphasise the development of superior management skills requiring non-linear learning and thinking. The new competitive landscape requires managers with the foresight and courage to disrupt equilibrium in firms , even when the firm currently is performing well"

– Michael A. Hitt, 1997 Presidential Address, Texas A and M University

* *David J. Collis and Cynthia A. Montgomery, 1995, 'Competing on resources', Harvard Business Review, July-August, pg. 120.*

What makes a Resource Valuable ?



The dynamic interplay of three fundamental market foces determines the value of a resource or a capability

Benefits Expected and Actually Realised

	With KM	Without KM
Better Decision Making	85%	71%
Better Customer Handling	83%	64%
Faster response to key business issues	83%	68%
Improved Employee Skills	80%	63%
Increased Profits	78%	60%
Improved Productivity	75%	52%
Sharing best practice	75%	53%
Reduced Costs	73%	57%
New ways of working	71%	58%
Increased Market Share	68%	50%
Create additional business opportunities	65%	54%
Improved new product development	60%	42%
Staff attraction / retention	45%	30%

Significance of Knowledge Management in improving Competitive Edge Market Survey on

- Potential Role of Knowledge Management (Annexure 3)
- Benefits expected and actually realised (Annexure 4)
- Why benefits failed to meet expectations? (Annexure 5)

Why Benefits failed to meet Expectations?

Lack of user uptake due to insufficient communication	20%
Every day use did not integrate into normal working practice	19%
Lack time to learn / system too complicated	18%
Lack of training	15%
User could not see personal benefits	13%
Senior Management was not behind it	7%
Unsuccessful due to technical problems	7%

rence: Communication gap, lack of integration, system mplexities (18 - 20%)

Potential Role of Knowledge Management

Improving Competitive Advantage	7.7
Marketing	7.5
Improving Customer Focus	7.3
Profit Growth	7
Production Innovation	7
Revenue Growth	6.8
Reducing Costs	6.7
Employee Development	6.7
Investment	6.5
Achieving Mergers	5.4

N. B: Scores out of 10

"Twenty first Century will be the century of knowledge. Only those nations will survive and succeed, which will build themselves by understanding the dynamics of knowledge and create true knowledge societies."
– Source: "India as Knowledge Superpower, Task force report, Planning Commision, GOI Publication, June 2001

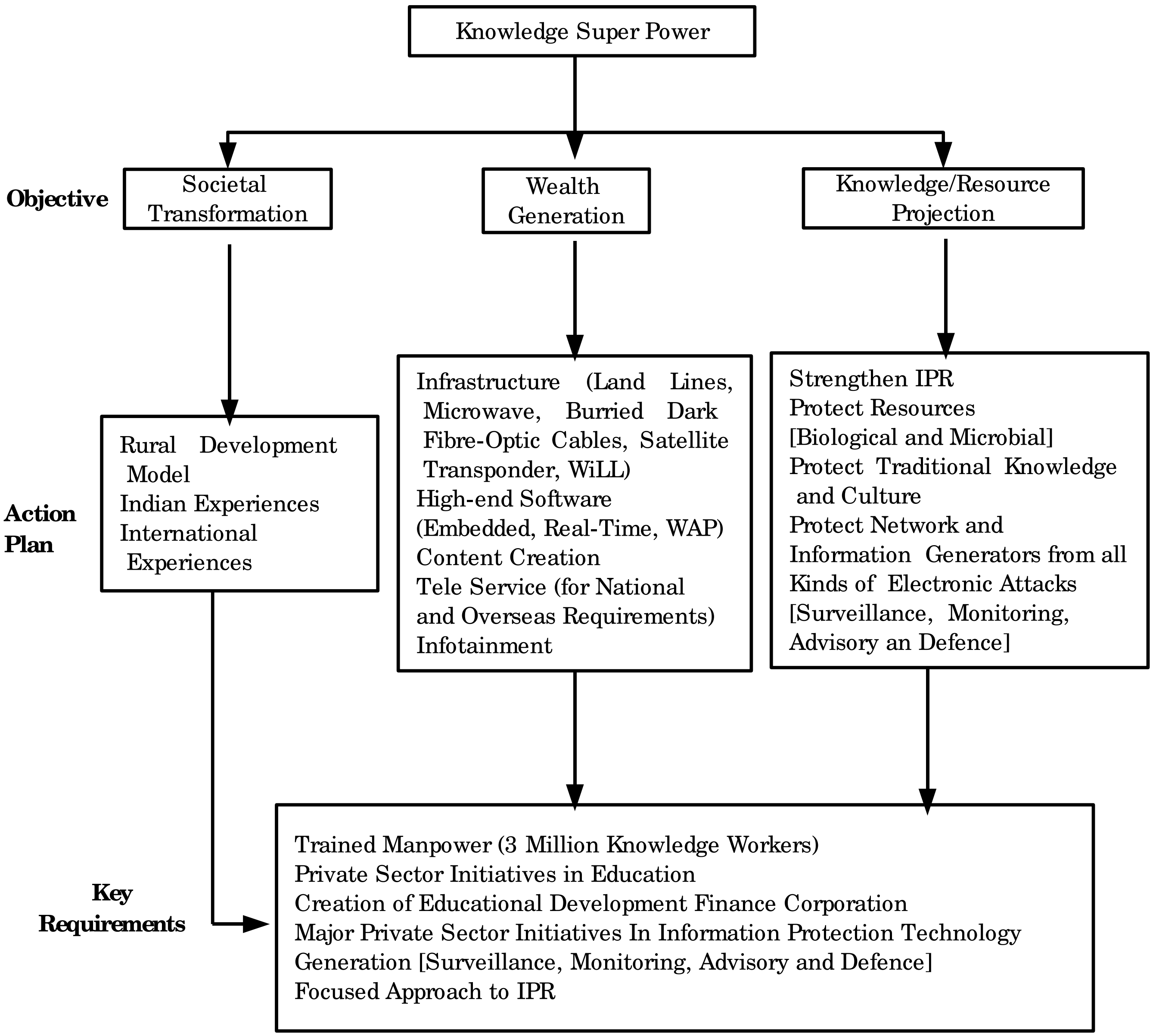
"When we buy one Kilogram of steel, 90% of it is material while if we buy a copy of Windows 98 from Microsoft, More than 95% of it is knowledge."
– Dr. R. A Mashelkar

"What does knowledge do? –

- *Informs*
- *Grows*
- *Insures*
- *Strengthens*
- *Quickens*
- *Safeguards*
- *Empowers*
- *Enriches*
- *Protects Bottomline (Profits)"*

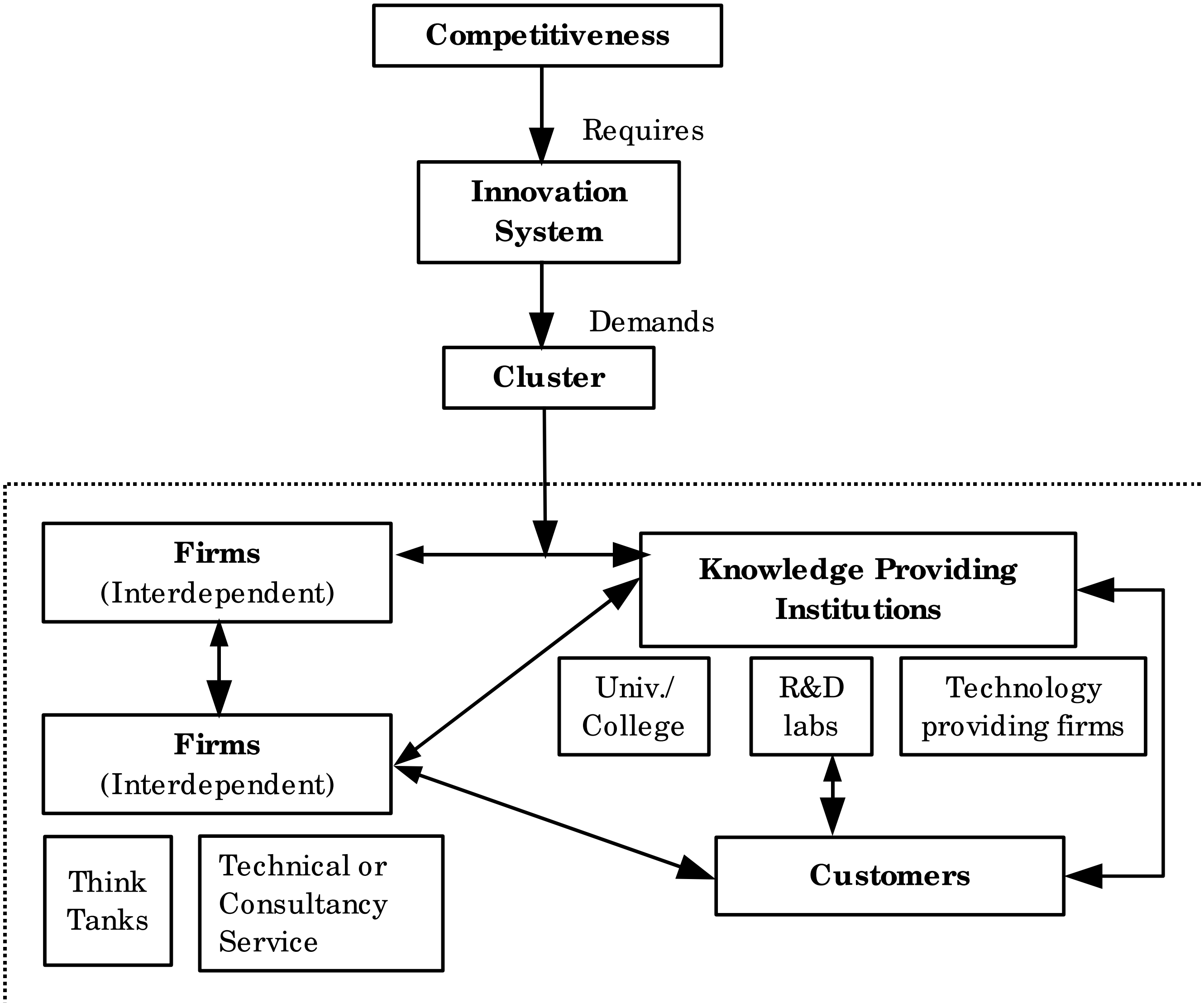
– Source: Aptech Annual Report

Profile of Indian Knowledge Society



Source- India as Knowledge Superpower, Task Force Report Planning Commission, GOI Publication - June 2001 pp. 3

Necessary Ingredients for a Knowledge Society



Source- India as Knowledge Superpower, Task Force Report Planning Commission, Government of India - June 2001 pp. 68

Data to Wisdom

Extract from the book: Essentials of Knowledge Management by Bryan Bergeron published by John Wiley and Sons, Inc. Year of publication: 2003. Pages 10-12.

Given the range of business activities that can be considered examples of Knowledge Management, one of the most confusing aspects of the practice is clarifying exactly what constitutes knowledge, information, and data.

Although the academic community has spent decades debating the issue, for our purposes, these definitions and concepts apply:

DATA: "Something given or admitted; facts or principles granted or presented; that upon which an inference or argument is based, or from which an ideal system of any sort is constructed" - Webster's Third New International Dictionary

"Known facts or things used as a basis for inference or reckoning" - Oxford Encyclopaedic English Dictionary

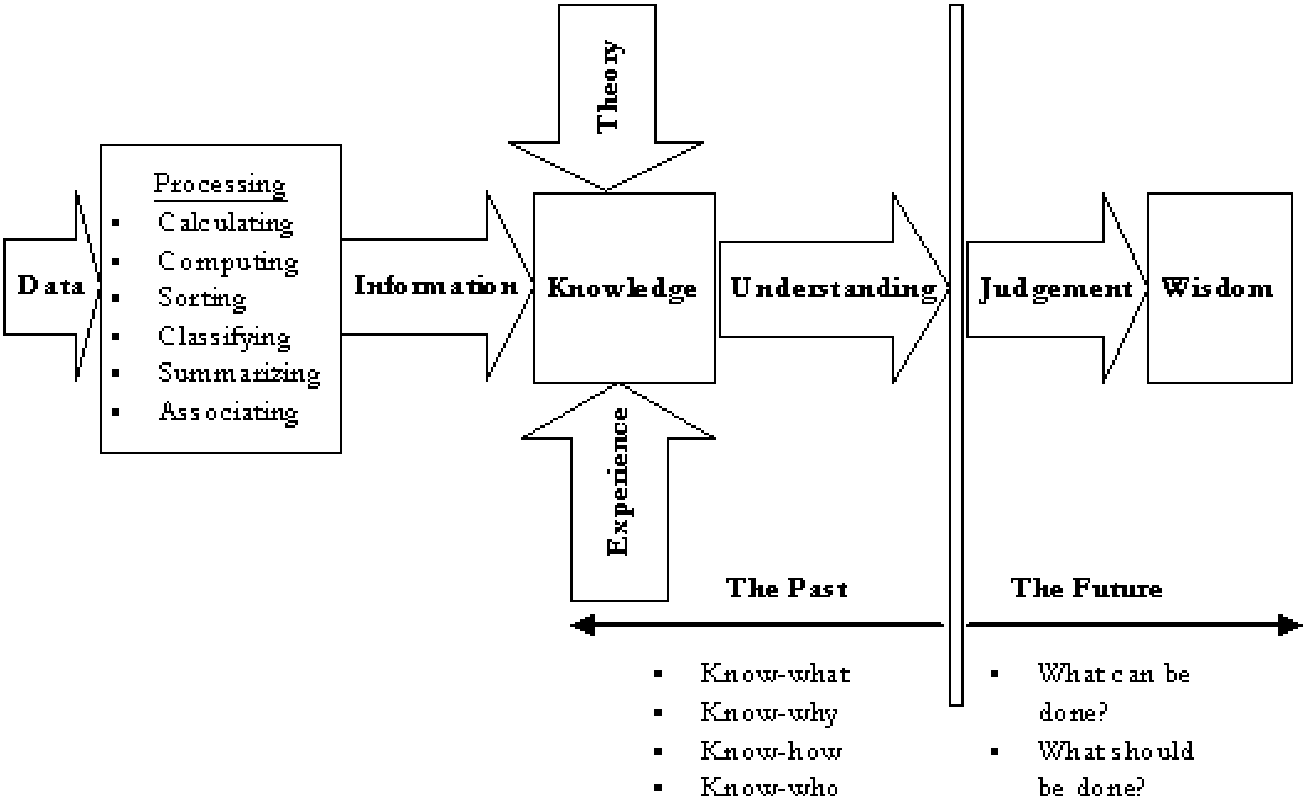
INFORMATION: "the meaning assigned to data by the agreed conventions used in its representations" - Macmillan Dictionary of Information Technology.

KNOWLEDGE:
"Acquaintance with facts or principles, as from study or investigation; general erudition;
◆ Familiarity or Conversance, as with a particular subject or branch of learning;
◆ Acquaintance or familiarity gained by sight, experience, or report; as for example 'knowledge of human nature';
◆ The fact or state of knowing, clear and certain perception of fact or truth;
◆ Awareness, as of a fact or circumstance;
◆ That which is or may be known; information; and
◆ The body of truths or facts accumulated by mankind in the course of time, as for example 'man's knowledge of the moon' " - Random House Dictionary (RHD)

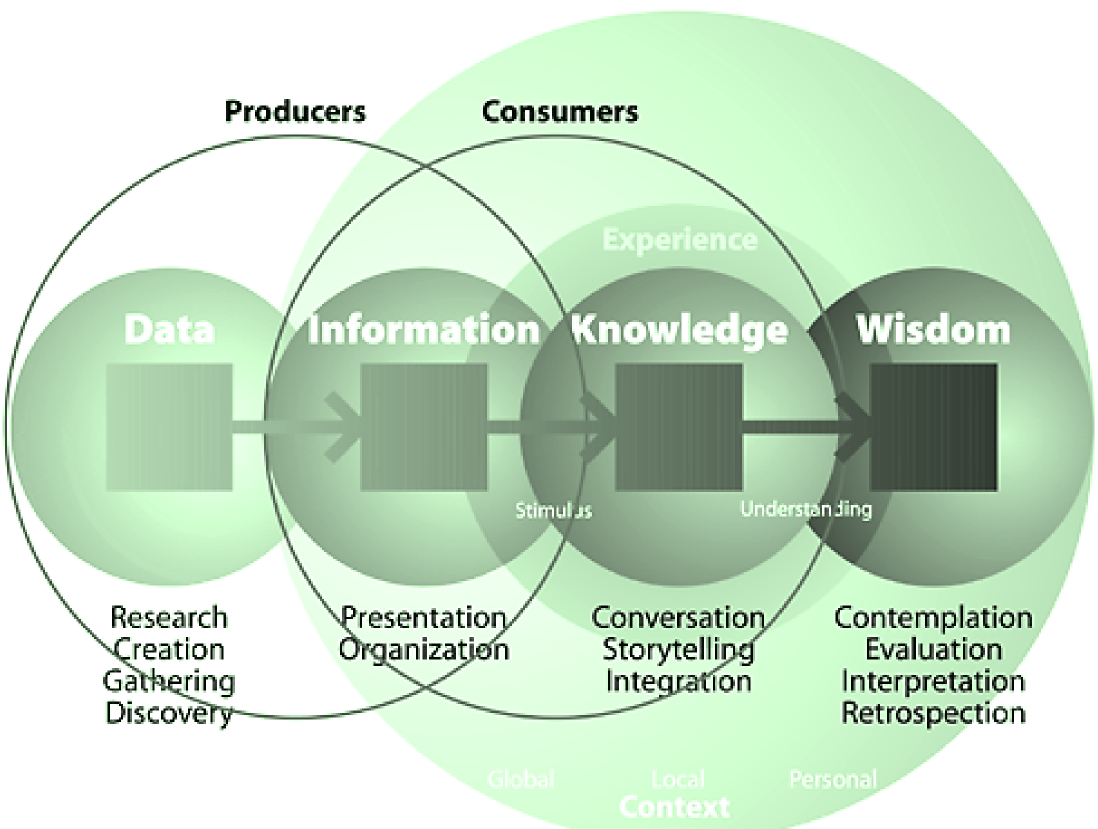
Synonyms : Enlightenment, Information, Understanding, Discernment, Comprehension, Judgement, Wisdom, Lore, and Science.

WISDOM: "Wisdom is the ability to make correct judgments and decisions. It is an intangible quality gained through experience some think" - WIKIPEDIA

TRADITION: "An inherited pattern of thought or action" - WordReference.com



Source: http://www.akma.com.hk/f_lingnam.asp



Source: http://www.sage.co.nz/km/02fig01.gif

The concepts defining knowledge are related hierarchically, with data at the bottom of the hierarchy and understanding at the top. In general, each level up the hierarchy involves greater contextual richness. For example, in medicine, the hierarchy (reading from left to right in the following table) could appear as:

	Data	**Information**	**Metadata**	**Knowledge**	**Instrumental Understanding**
Definition	Data are numbers. They are numerical quantities or other attributes derived from observation, experiment, or calculation.	Information is data in context. Information is a collection of data and associated explanations, interpretations, and other textual material concerning a particular object, event or process.	Metadata is data about information. Metadata includes descriptive summaries and high-level categorization of data and information. That is, metadata is information about the context in which information is used.	Knowledge is information that is organized, synthesized, or summarized to enhance comprehension, awareness, or understanding. That is, knowledge is a combination of metadata and an awareness of the context in which the metadata can be applied successfully.	Instrumental understanding is the clear and complete idea of the nature, significance, or explanation of something. It is a personal, internal power to render experience intelligible by relating specific knowledge to broad concepts.
Medical Example	Patient Temperature: 102F; Pulse: 109 beats per minute; Age 75.	“Fever” is a temperature greater than 100F, “tachycardia” is a pulse greater than 100 beats per minute; “elderly” is someone with an age greater than 75.	The combination of fever and tachycardia in the elderly can be life threatening.	The patient probably has a serious case of the flu.	The patient should be admitted to the hospital ASAP and treated for the flu.
Insurance Example	Marital status: Single; Annual Income $32,000; Age: 25.	Death risk is greater for single males than married males; median income is an annual income greater than $19,000; and “young adult” applies to age less than 25.	The prospect represents a moderate to low risk.	Given that the prospect has no dependents, insurance has no value to him unless the policy can be used as an investment vehicle.	The prospect should be sold a $100,000 cash value life insurance policy.

Source : Essentials of Knowledge Management by Bryan Bergeron published by John Wiley and Sons, Inc. 2003. Pages 10-12.

In the medical example, data are the individual measurements of temperature, pulse, and patient age, which have no real meaning out of context.

However, when related to the range of normal measurements (information), the patient is seen in the context of someone who is elderly with a temperature and tachycardia. In the greater context of healthcare (metadata), the combination of findings is viewed as life threatening. A clinician who has seen this pattern of patient presentation in the past diagnoses the patient as having the flu (knowledge). In addition, given the patient's age and condition, the clinician determines (understanding) that the patient should be admitted to the hospital and treated for the flu.

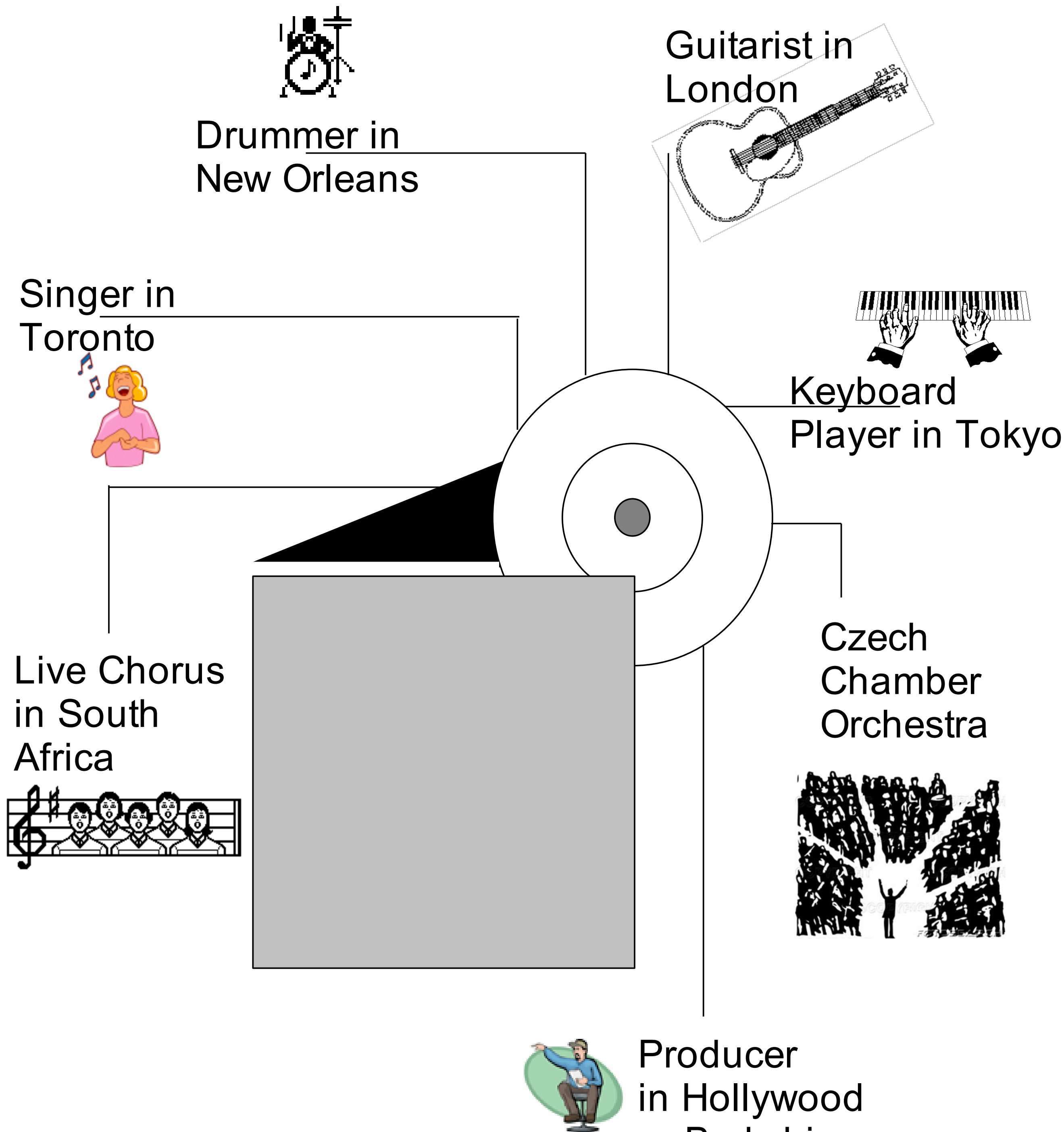
In both examples, more than simply grouping data or information is involved in moving up the hierarchy. Rather, there are rules of thumb or heuristics that provide contextual information.

♦♦♦

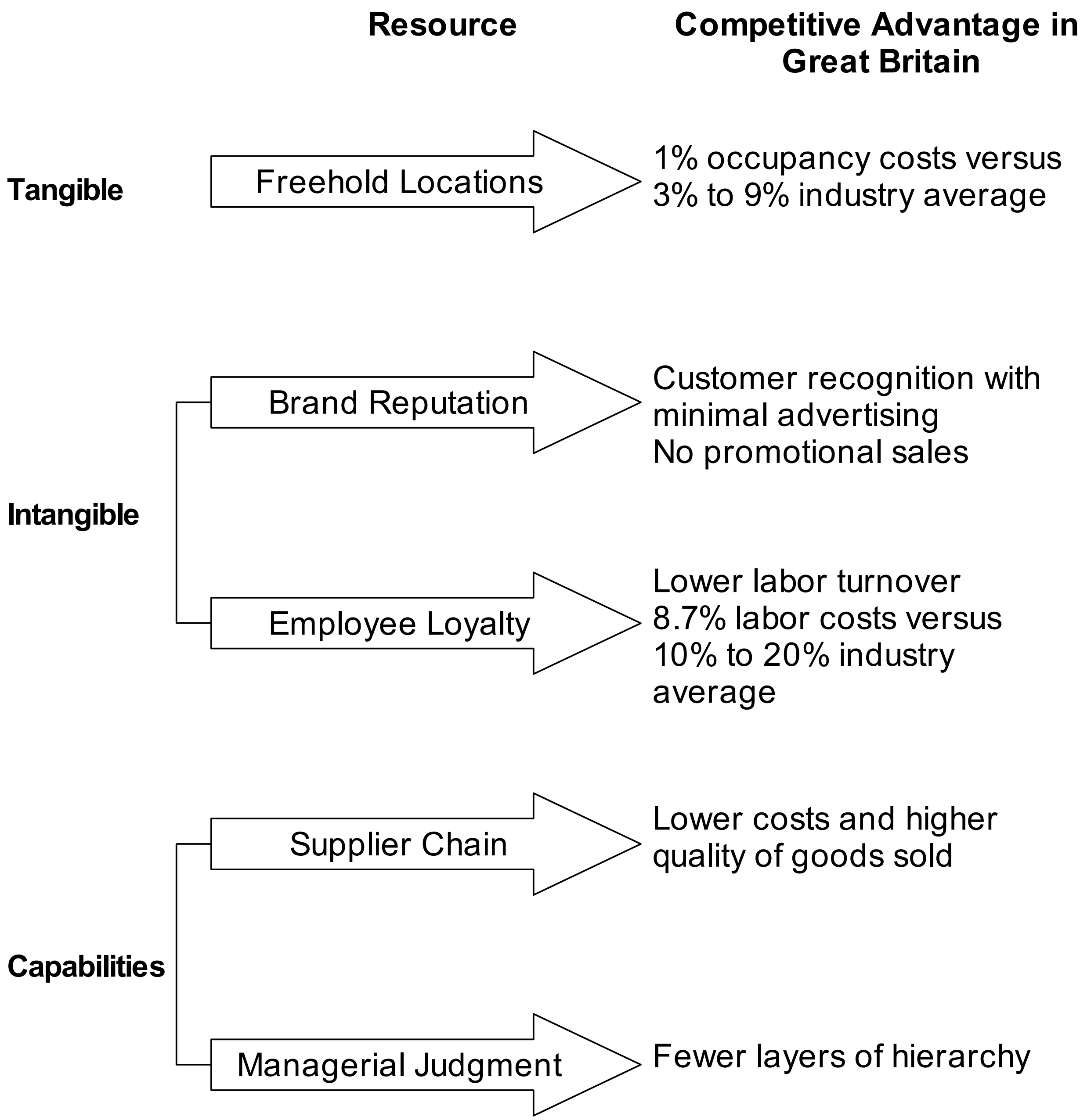
The new rules of business, display a great learning experience to operate with strange bedfellows with symbiotic alliances in the factor market and bitter business battles in the output market. The rules of the game have changed so much and so fast that there is turbulence and chaos arising out of the actions and interactions of friends and foes who are all the same. It's as if that in the football match while the game is on, the size of ground could change, players could exchange sides, umpires could change rules, goal posts could be shifted, duration of the match can be altered after the game has started and the ground itself could be in motion while the game is being played.

The New Age Paradigm of Knowledge Economy

An illustration of What Future Activities will look like



How Marks & Spencer's Resources
Give it Competitive Advantage



History of Decision Making

Compiled by Deepak Gokhale under guidance of Dr. Guruprasad Murthy

"Decision making starts where formulae end and where judgement has to be exercised, the imponderable has to be evaluated and the intangible has to be assessed" – K. Basu

Decision is defined as teleological or goal seeking selection of a specific course of action from among a set of alternate courses of action referred to as strategies.

Approaches to Decision making can be traced to eminent personalities and their approaches.

One View of decision making is given by Albert Einstein. He has total conviction regarding objectivity and knowledgibility of the world. Everything can be measured eventually in the terms of an equal $E = mc^2$. A Probabilistic view of anything the universe does not exist. He also asserted that there was unity between material and mystical. It is his famous quote "God does not play dice with universe". On the other hand Newton believed that objectivity knowledgibility is always to be supported by some inexplicable and invisible force which may be magical mystical celestial, intangible or imponderable as the case may be. Though held convictions of objectivity, reality and knowledgibility of the world, left some room for religion and Celestial bodies. Most decision module place themselves somewhere between Newton's thought and Einstein view. The compilation of various approaches to Decision Making provides insight into the same 6th Century B.C. to the latest year.

A History of Choice

The history of decision making is long, rich, and diverse.

PRE HISTORY

For millennia, human decisions are guided by interpretations of entrails, smoke, dreams and the like; hundreds of generations of Chinese may rely on the poetic wisdom and divination instructions compiled in the Ching. The Greeks consults the oracle of Delphi. Prophets and seers of are kinds peer into the future.

Sixth Century BCE: LAO-TZU teaches the principle of "non willful action": letting events take their natural course. Confucius says decisions should be informed by Benevolence, ritual, reciprocity, and filial piety.

Fifth Century BCE: Male citizens of Athens, in early forms of democratic self government, make decisions by voting.

Fourth Century BCE: Plato asserts that all perceivable things are derived from eternal archetypes and are better discovered through the soul than through the senses. Aristotle takes an empirical view of knowledge that values information gained through the senses and deductive reasoning.

399 BCE: In an early jury-trial decision, 500 Alherian citizens agree to send Socrates to death.

333 BCE: Alexander the Great slices through the the Gordian knot with his sword, demonstrating how difficult problems can be solved with bold strokes.

49 BCE: Julius Caesar makes the irreversible decision making to cross the Rubicon, and a potent metaphor in decision making in born.

9th Century: The Hindu Arabic number system, including zero, circulates throughout the Arab empire, stimulating the growth of mathematics.

11th Century: An English friar proposes what became known as "Occam's razor", a rule of thumb for scientists and others trying to analyse data. The best theory is the simplest one that accounts for all the evidence.

17th Century: Stable keeper Thomas Hobson presents his customers with an eponymous "choice": the horse nearest the door or none.

1602: Hamlet, facing arguably the most famous dilemma in western literature, debates whether "to be or not to be".

1620: Francis Bacon asserts the superiority of inductive reasoning in scientific inquiry.

1641: Rene Descartes proposes that reason is superior to experience as a way gaining knowledge and establishes the framework for the scientific method.

1654: Prompted by gamblers' question about the "problem of point" Blaise Pascal and Pierre de Fermat develop the concept of calculating probabilities for chance events.

1660: Pascal's wager on the existence of God shows that for a decision maker, the consequences, rather than the likelihood, of being wrong can be paramount.

1738: Daniel Bernoulli lays the foundation of risk science by examining random events from the standpoint of how much an individual desires or fears each political outcome.

19th Century: Carl Friedrich Gauss studies the bell curve, described earlier by Abraham de Moivre, and develops a structure for understanding the occurrences of random events.

1880: Oliver Wendell Holmes, in a series of lectures later published as 'The Common Law', puts forth the thesis that the life of the law has not been logic; it has been experience". Judges, he argues, should base decisions not merely on statutes but on the good sense of reasonable members of the community.

1886: Francis Gallon deserves that although values in a random process may stray from the average, in time they will trend toward it. His concept of regression to the mean will influence stock and business analysis.

1900: Siegmund Freud's work on the unconscious suggests that people actions and decisions are often influenced by causes hidden in the mind.

1907: Economist Irving Fisher introduces net present value as a decision making tool, proposing that expected cash flow be discounted at a rate that reflects an investment's risk.

1921: Frank Knight distinguishes between risk, in which an outcome's probability can be known (and consequently insured against), and uncertainty, in which an outcome's probability is unknowable.

1938: Chester Barnard separates personal from organisational decision making to explain why some employee act in the firm's interest rather in their own.

1944: In their book on game theory, John Von Neumann and Oscar Morenstern describe a mathematical basis for economic decision making: like most theories before them they take the view that decision makers are rational and consistent.

1946: The Alabe Crafts Company of Cincinnati markets the magic 8 Ball.

1947: Rejecting the classical notion that decision makers behave with perfect rationality, Herbert Simon argues that because of the costs of acquiring information, executives make decisions with only "bounded rationality" - they make with good enough decisions.

1948: Project RAND, its name a contraction of "research and development", separates from Douglas Aircraft and becomes a non profit think tank. Decision makers use its analyses to form policy on education, poverty, crime, the environment, and national security.

1950: Research conducted at the Carnegie Institute of Technology and MIT, will lead to the development of early computer based decision support tools.

1951: Kenneth Arrow introduces what becomes known as the Impossibility theorem, which holds that there can be no set of rules for social decision making that fulfills all the requirements of society.

1952: Harry Markovitz demonstrates mathematically how to choose diversified stock portfolio so that the returns are consistent.

1960s: Edmund Learned, C. Roland Christensen, Kenneth Andrews, and others develop the SWOT (Strengths, Weaknesses, Opportunities, Threats) model of analysis, useful for making decisions, when time is short and circumstances complex.

1961: Joseph Heller's term "catch 22" becomes popular shorthand for circular, bureaucratic, illogic that thwarts good decision making.

1965: Corporations use IBM's System/360 computers to start implementing management information systems. Roger Wolcott Sperry begins publishing research the functional specialization of the brains two hemispheres.

1966: The phrase "nuclear option" is coined with respect to developing atomic weapons and is eventually used to designate a decision to take the most drastic course of action.

1968: Howard Raiffa's Decision Analysis explains many fundamental decision making techniques, including decision trees and the expected value of sample (as opposed to perfect) information.

1970: John D. C. Little develops the underlying theory and advances the capability of decision support systems.

1972: Irving Janis coins the term "group think" for flawed decision making that values consensus over the best result. Michael Cohen, James March, and Johan Olsen publish "A Garbage can model of organisational choice", which advices organisations to reach their informational trash bins for solutions thrown out earlier for lack of a problem.

1973: Fisher Black and Myron Scholes (in one paper) and Robert Merton (in another) show how to accurately value stock options, beginning a revolution in risk management. Henry Mintzberg describes several kinds of decision makers and positions decision making within the context of managerial work.

Victor Vroom and Philip Yetton develop the Vroom Yetton model which explains how leadership styles can be harnessed to solve different types of problems.

1979: Amos Tversky and Daniel Kahneman publish their prospect Theory which demonstrates that the ratio trial model of economics fails to describe how people arrive at decision when facing the uncertainties of real life.

John Rockart explores the specific data needs of chief executives, leading to the development of executive information systems.

1980s: "Nobody ever got fired for buying IBM" comes to stand for decisions whose chief rationale is safety.

1984: W. Carl Kester raises corporate awareness of real options by suggesting that managers think of investment opportunities as options on the company's future growth.

Daniel Isenberg explains that executives often combine rigorous planning with intuition when faced with a high degree of uncertainty.

1989: Howard Dresner introduces the term "business intelligence" to describe a set of methods that support sophisticated analytical decision making aimed at improving business performance.

1992: Max Bazerman and Margaret Neale connect behavioural decision research to negotiations in Negotiating Rationally.

1995: Anthony Greenwald develops the Implicit Association Test, meant to reveal the unconscious attitudes or beliefs that can influence judgement.

2005: In Blink, Malcolm Gladwell explores the notion that our instantaneous decisions are sometimes better than those based on lengthy, ratio trial analysis.

"For decisions with a certain amount of built-in predictability – the process seems to work really well. But if a decision involves clear winners and losers, it stalls".

- ➔ The payoff for a lot of hard work and seemingly endless preparation occurs when its time to make hard decisions.
- ➔ Consensus is good, unless it is achieved too easily, in which case it becomes suspect.
- ➔ A gut is personal, non transferable attribute, which increases the value of a good one.
- ➔ A good decision executed quickly beats a brilliant decision implemented slowly.
- ➔ The trick in decision making is to avoid booming either mindlessly global or properness local.
- ➔ Many of the most cross – functional decisions are, by their very nature, the most difficult to orchestrate.
- ➔ Strategic planning is not about making decisions. It's about documenting choices, that have already been made, often haphazardly. Leading firms are rethinking their approach to strategy development so

they can make more, better and faster decisions.

Choice V/S Rejection

Is choosing one of the two options is one and the same as rejecting one of the two?

Positive features of the options normally weigh heavier when choosing an option; while negative features weigh heavier when rejecting an option. So in a closely matched option, choosing and rejecting between two options may not necessary be the same.

When people are asked to choose an option, they tend to lay greater emphasis on parameters favoring choice and when they are asked to reject an option, they tend to lay an greater emphasis on the parameters that favour rejecting the option.

Positive features are given higher weightage when the question is posed as choice and vice versa.

Patil Raps

Worli, hosting high sky risers has a village in Worli Koliwada vying for its presence. A uniqueness about this village is that it does not depend on the urban judicial system of courts, to settle their disputes or solving problems. They choose a headman and his word is treated as law.

This village resembles the village depicted in bollywood flicks. They follow an age old system of patil who solves their problems/disputes. The village population is around 35,000 and are mainly kolis or fishermen. They have nine patils. A trust has been founded to look after the welfare activities and attend to the problems and aptly called as Nav patil Jamat and Gavkari State Committee. Each patil heads a group in the village. Any dispute which cannot be solved by the group patil at his end, is solved by convening a meet of all the nine patils. This system is practised from 1919.

The problems attended by these patils range from property disputes, fishing, civic matters and even household problems. The people are urged to come to them if only they are going to accept decisions given by the patils. The people can pursue other avenues if they so desire.

The disputes come to the patils because they are cost free, and fast. The villagers have total faith in the patils.

Recently the patils got the rights of the land near them. They filed a suit against BMC (Brihanmumbai Mahanager Corporation). They moved the court and in 1994 decision in their favour was granted.

They also contributed social services during Kargil war by patrolling the seashore from Haji Ali to Shivaji Park.

Worli woods, an NGO has adopted the village for development. As the villagers say "We go to the patils for every problem because they are very quick and we have total faith in them". She says "Patils are there to help us whenever we need them".

Source : Times of India (Bombay times) page-1 dated 8th August 2002.

♦♦♦

"Whence all creation had its origin, he, whether he fashioned it or whether he did not, he, who surveys it all from highest heaven, he knows - or maybe even he does not know."

— Rig Veda – X.129.7

Culture – Various Views

"Culture drives the organisation and it's Actions". It is somewhat like "The Operating System" of the organisation. It guides how employees think, act and feel"

- Hagberg & Consulting Group

"Unwritten often unconscious message that fills in the gaps between what is formally decreed and what actually takes place, it involves shared philosophies, ideologies, values, beliefs, expectations and norms"

- R. H. Kilmann & M. J. Saxton (1983)

"Organisation culture is the set of basic assumptions that a given group has invented,discovered or developed in learning to cope with its problems of external adaptation and internal integration and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems" - Edgar H. Schein (1984)

"Organisational Culture is a set of customs and typical patterns of ways of doing things. The force pervasiveness and nature of such model beliefs and values vary considerably from organisation to organisation. Yet it is assumed that an organisation that has any history at all has developed some sort of culture & that this will have a vital impact on the degree of success of any efforts to alter or improve the organisation" - Peter, Lawler & Hackman (1975)

"Organisation culture refers to the underlying values, beliefs and principles that serve as a foundation for organisation's management system as well as the set of management practices and behaviours that both exemplify and reinforce those basic principles" - Daniel R. Denison (1990)

"The collective programming of human mind, obtained in the course of life, which is common to the members of one group as opposed to another"

- Geert Hofstede (1978)

Source: Saxsena, Indu, Corporate Culture and Organisational Performance - Management concepts and practices in Indian Industries, Ph.D. Thesis, University of Mumbai, 1998. pp.344.

"We find among the excellent companies a few common attributes that unify them despite their different values. First … these values are almost always stated in qualitative, rather than quantitative, terms. When financial objectives are mentioned, they are almost always ambitious but never precise. Furthermore, financial and strategic objectives are never stated alone. They are always discussed in the context of other things the company expects to do well. The idea that profit is a natural by-product of doing something well, not an end in itself, is also almost universal."

The only (objectives) that management got animated about were the ones that could be quantified – the financial objectives such as earnings per share and growth measures. Ironically, the companies that seemed the most focused – those with the most quantified statements of mission, with the most precise financial targets – had done less well financially than those with broader, less precise, more qualitative statements of corporate purpose.

Source: Peters and Waterman, "*In Search of Excellence: Lessons from America's Best Run Companies* (Harper and Row 1982)

Excellence in Performance and Corporate Culture – A Comparative Study

Dr. Indu Saxena

Introduction

Hofstede (1980) carried out exhaustive research on Culture. At almost the same time Tom Peters and Waterman (1982) came out with their study, which triggered off various thoughts on management regarding corporate culture on the one hand and the organisational success on the other. In fact, the rise of corporate culture as a distinct area for study in management can be attributed to the works of Tom Peters and Waterman followed by Deal and Kennedy (1982), Edgar Schein (1984), Denison (1990), and Kotter (1993). Since then quite a few studies have been conducted on this subject in U.S.A. and in European countries. Researchers focused on culture relating it to Effectiveness (Kotter John P. (1993), Denison (1990), Anfuso D.(1995), Trapp R. (1996), Tom Peters and Waterman (1982)); Long-term economic and non-economic performance (Deal and Kennedy (1982), Gordon G. (1990), Rollins T. (1993), Petrock F.(1990), Bettinger C. (1989), Bart C.K.(1996)); Total Quality Management (Kim P.S. (1995), Kekale J. Kekale T. (1995)); Impact on the strategic management (Wimalasiri J. (1991)); Success or failure of organisations (Hay, (1994)).

The studies conducted on the subject show that there is correlation between corporate culture and organisational performance/effectiveness. However, studies conducted in India on the topic are still not many and further empirical research is needed. Although the relevance of the topic has been well established through the studies in the West, the inferences and generalisations of these studies, though quite important, cannot be blindly imitated or mechanically transplanted to our own situations and needed to be tested in India.

The attempts to make a comparative study of culture patterns in differently performing organisations are only a few. The present study explores the relationship between organisational performance and culture.

The study was conducted on 15 private/public sectors, small to large sized manufacturing – Well performing (5), Turned around (5) and Sick (5) organisations in Mumbai. The universe of well performing and turned around organisations comprised of companies situated in Mumbai and listed in BT 500 companies published by Business Today in 1993, 1994 and 1995. In case of sick companies, the universe comprised of listed companies in Mumbai by Board of Industrial and Financial Restructuring (BIFR) between 1992 and 1995. A general profile of these organisations is presented in Annexure- 1.

With the help of the Personnel/HRD/Sr. Manager a sample of 274 respondents was randomly selected from 15 chosen organisations. Depending on the size of the organisation, a minimum of 10% and a maximum of 85% personnel were selected as sample from the total managerial population of the organisation. Of these 40.5% (111) respondents belonged to Well performing organisations, 31% (85) respondents belonged to Turned-around organisations and 28.5% (78) respondents belonged to Sick organisations.

The data was collected both through primary and secondary sources. For culture component, data was collected through questionnaire, interviews, and published/unpublished material on the culture of the organisation (wherever available). Whereas, organisational performance related data was mainly drawn from the annual reports of the organisations and also from the other sources like Stock exchange directory and Center for Monitoring Indian Economy (CMIE) databank and reports.

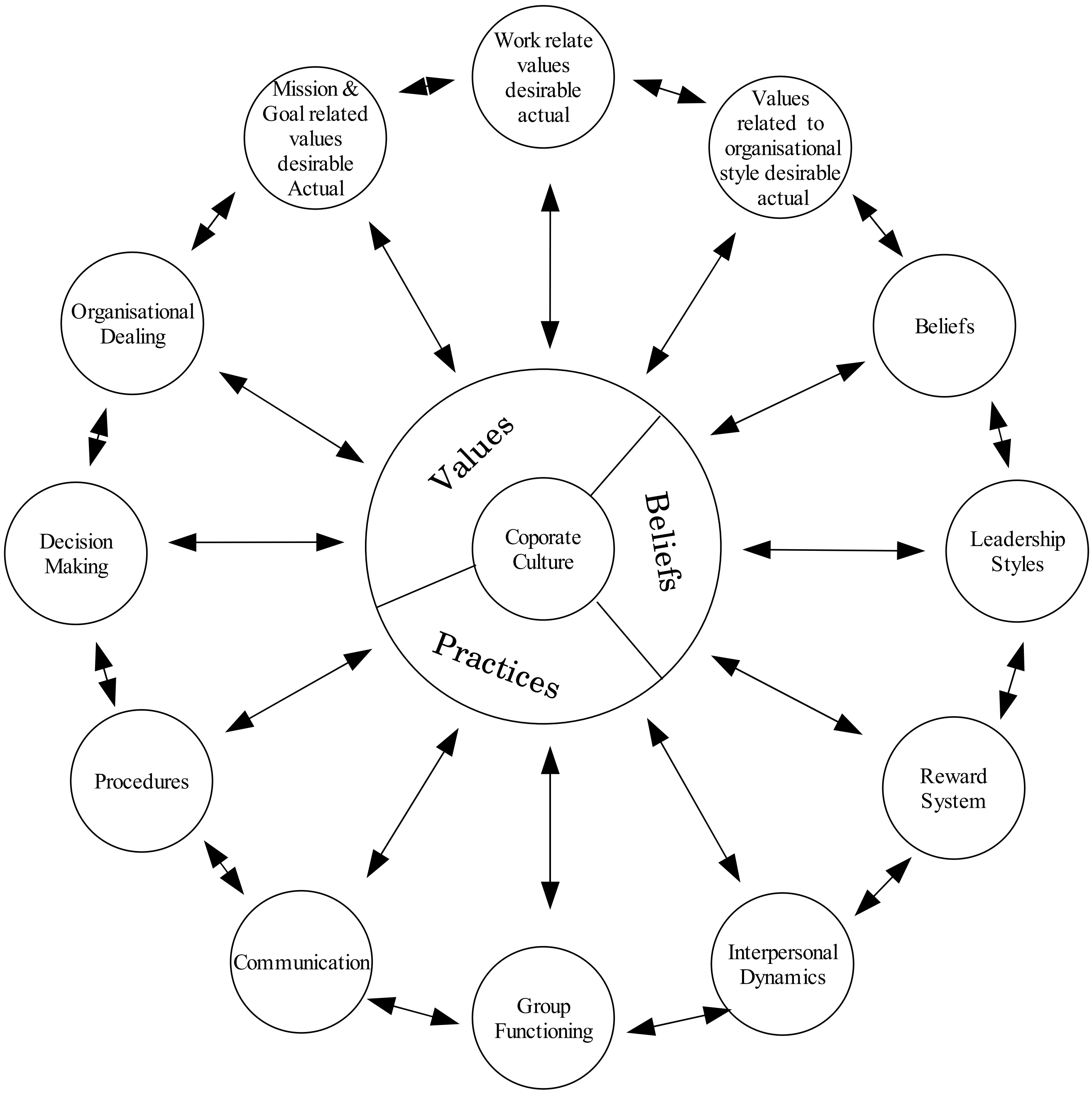
Corporate Culture

Culture in the present study is conceptualised as having core organisational values and beliefs in the centre, manifestation of which is seen in the policies and practices of the organisational members. Also taking the logic from the earlier studies, Denison

(1990), Evans (1968), Udai Pareek (1989) terms culture and climate are considered as synonyms. Thus, following three components- values, beliefs and practices are incorporated in the study of corporate culture. Values are defined as deep-rooted, enduring beliefs amongst the organisational members about different aspects of organisational life. These values are studied with respect to the mission and goals, organisational work and organisational styles.

Beliefs are defined as general acceptance of facts about the organisation. These general organisational beliefs are studied with respect to organisational aspects such as organisational capabilities, growth, organisational standing and organisational working.

Nine dimensions relating to organisational practices — Business Elements, Organisational Dealings, Decision Making, Procedures, communication, Work-Group Functioning, Interpersonal Relationships, Reward System and Leadership are studied.



Organisational Performance

Performance of an organisation is judged on the basis of financial indicators. After carefully scanning of the financial yardsticks, the following ratios have been used for the study — Return on total assets (Book-Basis %), Profit margin (Book-Basis %), Return on total assets (cash-basis %), Return on owners funds (cash-basis %). Ratio definitions are provided in Annexure-2.

Well performing organisations (WPO) in the sample studied include companies, which have had a positive result on account of profitability indicators at least in 5 out of the 6 years ending 1995-96. The Turned around organisations includes organisations which were sick before 1990-91 and posted no negative but positive return on profitability indicators for at least 2 of the 6 years ending 1995-96. The Sick organisations include organisations with poor financial health identified in terms of cash losses for at least 3 of the 6 years ending 1995-96.

To identify the level of significance of variation in the performance criteria of three types of organisations One Way ANOVA on selected five financial ratios by types of organisations was conducted. The results show that on all the other four financial variables, the variation was found significant in three types of Well performing, Turned around and Sick organisations. On Return on Total Assets (Book-Basis %) F-value was 28.68, on Profit Margin (Book-Basis %) 24.21, on Return on Total Assets (Cash-Basis%) 22.13 and Return on Owner's funds (Cash Basis%) 3.93.

Tools Used for Study

A questionnaire containing 79 items was developed, which contained three sections. In section one, which consisted 16 statements on values, answers were sought twice — first on desirable values and second on actually prevalent values. Section two probed on prevalent beliefs and consisted of 14 statements. Section three, which enquires about the prevalent organisational practices, consists of 49 statements.

In section one, to identify the gaps between actually prevalent values and desirable values, on the same statements answers were sought - first, on the "Desirable Values" and then, on the "Actual Prevalent Values" in the organisations. However, in section two and section three, respondents were asked to rate the statements only on "Actually prevalent beliefs and practices" and not on "Desirable Beliefs and Practices" in the organisation. This was decided on the assumption - that beliefs and practices have roots in values, and therefore desirable beliefs and practices would be in alignment with desirable values, which were already rated by the respondents in Section one.

Five-point scale, from 'To A Great Extent', 'To A Considerable Extent', 'To Some Extent', 'To A Little Extent' to 'Not At All', was used for data collection.

Tests Applied

Different statistical tools were applied to study the corporate culture patterns and their relationship to the organisational excellence in terms of financial performance.

Means of culture as one variable, and of 16 culture related variables separately, were calculated to identify the broad differences in group Means of three different types of organisations under study. To further measure the extent of dispersion of observations in these organisations, Standard Deviation was used.

One way analysis of variance (ANOVA) was conducted to find out the variations and their significance in the perceptions of the respondents in three types of - Well performing organisations, Turned around organisations and Sick organisations, on culture as one variable, and on 16 variables related to culture. Once the ANOVA test revealed significant differences in three types of organisations on culture as one variable and also on 16 variables separately, Post-hoc test 'Scheffe' was applied to identify, which, amongst the three types of Organisations viz. Well performing organisations, Turned around organisations and Sick organisations, were significantly different from one another on culture as one variable and on 16 variables of culture.

The Results

The findings of the study are based on qualitative and quantitative analysis of the data, relating to 16 selected variables of culture.

The results of Means and standard deviation of culture show that well performing organisations have higher group Mean (367.06) than Turned around organisations (329.21) and Sick organisations (325.59) on culture as one variable. The results were similar on all the other variables related to Value, Beliefs and Practices, except for one variable i.e. Values related to organisational style-Desirable. Turned around organisations have higher Means than Sick organisations on 9 variables namely- Mission and goals related values - Actual, Work related values - Actual, Organisational beliefs, Business elements, Organisational Dealings, Procedures, Group functioning, Reward system and Leadership Dimensions. On the other remaining variables, either the group means of Turned around organisations and Sick organisations are similar (Mission and goals related values - Desirable) or they are higher with a small margin in Sick organisations (Work related values - Desirable, Values related to organisational style - Desirable, Values related to organisational style - Actual, Decision making, Communications and Interpersonal relationships).

The results on Standard Deviation present a varying picture of the dispersion of scores from the group mean of each type of organisation. Generally, in well performing organisations dispersion of group scores from group mean is least (30.68). In Turned around organisations dispersion is comparatively more (39.84) and in sick organisations observations are quite scattered (50.83) in comparison to well performing organisations and Turned around organisations. This shows that the ratings on perceptions in well performing organisations are within a narrower range in comparison to Turned around and sick organisations. In Turned around organisations also this range of dispersion of observations is narrower than sick organisations, where it is found to be quite wide in comparison to well performing organisations and Turned around organisations.

A summary of Means and standard deviation of culture as one variable, and of 16 variables related to culture separately, in three types of organisations, is presented in Table-1 and Table-2 respectively.

Group	Count	Mean	Std. Dev.
Well Performing Organisations	111	367.06	30.68
Turned Around Organisations	85	329.21	39.84
Sick Organisations	78	325.59	50.83
Total	274	343.51	44.47

Table 1: Means and Standard Deviation of Variable Culture in Well performing, Turned Around and Sick Organisations

Similar is the trend with respect to most of the dependent variables related to values, beliefs and culture, when they are tested separately. As shown in Table-2, On the variables - Mission and Goals related values - Actual, Work related values - Actual, Values related to organisational style - Actual, Organisational Beliefs, Business elements, Organisational Dealings, Decision making, Procedures, Communications, Group functioning, Interpersonal Relationships, Reward System and Leadership dimensions, the scores are found to be least dispersed in Well performing organisations than Turned Around organisations and Sick organisations. The same are found to be most dispersed in Sick organisations. However, on the variables - Mission and goals related values-Desirable, Work related values - Desirable, Values related to organisational styles - Desirable, and Procedures the trend is somewhat different. On Mission and goals related values - Desirable, values are more scattered in Turned around organisations than Sick Organisations. Whereas, on Work related values - Desirable, Values related to organisational styles - Desirable, and Procedures, values are least scattered in Turned around organisations than Sick organisations and even Well performing organisations.

Values in parentheses indicate Standard Deviation

Sr. No.	Variables	WPO * Means and Std. Dev.	TAO ** Means and Std. Dev.	SO *** Means and Std. Dev.
1.	Mission and Goals Related Values - Desirable	23.14 (1.62)	22.84 (2.89)	22.84 (2.86)
2.	Work Related Values-Desirable	31.02 (2.32)	30.88 (2.20)	31.13 (2.57)
3.	Values Related to Org.Style-Desirable	13.23 (1.72)	13.28 (1.62)	13.36 (1.85)
4.	Mission and Goals Related Values - Actual	19.83 (2.61)	16.80 (3.53)	16.67 (4.58)
5.	Work Related Values-Actual	26.60 (3.72)	23.69 (4.51)	22.94 (5.54)
6.	Values Related to Org.Style-Actual	11.78 (2.12)	9.79 (2.16)	10.10 (2.78)
7.	Overall Organisational Beliefs	53.21 (5.73)	47.01 (7.15)	45.54 (7.90)
8.	Business Elements	63.53 (7.06)	55.65 (9.90)	55.33 (11.16)
9.	Organisational Dealings	15.26 (2.39)	13.04 (3.00)	12.82 (3.57)
10.	Decision Making	7.23 (1.44)	5.74 (1.88)	5.88 (2.10)
11.	Procedures	5.87 (1.76)	4.84 (1.56)	4.26 (1.57)
12.	Communication	23.43 (3.19)	20.27 (4.91)	20.74 (5.05)
13.	Group Functioning	22.30 (2.82)	19.76 (3.33)	19.56 (4.43)
14.	Interpersonal Relationships	15.98 (2.52)	14.85 (3.09)	14.89 (3.48)
15.	Reward Systems	22.57 (4.50)	19.64 (5.33)	19.10 (7.13)
16.	Leadership Dimensions	12.08 (2.03)	11.14 (2.23)	10.82 (3.49)

Table 2: Means and Standard Deviation of 16 Variables in Well Performing, Turned Around and Sick Organisations

** Well Performing Organisations*
*** Turned Around Organisations*
**** Sick Organisations*

Results of One Way ANOVA and Scheffe

Results of one way ANOVA, which are presented in tables - 3 and 4, reveal that the perceptions of respondents in three types of organisations, show a significant variation on Culture as one variable, and also on 13 variables out of total 16 selected variables pertaining to values, beliefs and practices, when studied in detail. These 13 variables on which variation is found significant are –

- Mission and Goals related values - Actual
- Work- related values - Actual
- Values related to Organisational Styles - Actual
- Organisational Beliefs
- Business Elements
- Organisational Dealings
- Decision Making
- Procedures
- Communication
- Group Functioning
- Interpersonal Relationships
- Reward System and
- Leadership Dimensions

Three variables, on which the results show insignificant variation in three types of organisations, are –

- Mission and Goals related values - Desirable,
- Work related values - Desirable and
- Values related to Organisational Style – Desirable.

Source	D.F.	Sum of Squares	Mean Squares	F-Ratio	F-Probability
Between Groups	2	104002.82	52001.41	32.34	.0000 *
Within Groups	271	435819.62	1608.19		
Total	273	539822.44			

Table 3: One Way ANOVA On Culture By Types Of Organisations
** 0.01 Level of significance*
DF= 2/271

Sr. No.	Variables	F-Value	F- Probability
1.	Mission and Goals Related Values – Desirable	1.38	.2534
2.	Work Related Values-Desirable	.22	.7999
3.	Values Related to Org.Style- Desirable	.14	.8720
4.	Mission and Goals Related Values - Actual	25.10	.0000*
5.	Work Related Values-Actual	17.68	.0000*
6.	Values Related to Org.Style- Actual	20.92	.0000*
7.	Overall Organisational Beliefs	34.47	.0000*
8.	Business Elements	24.81	.0000*
9.	Organisational Dealings	20.62	.0000*
10.	Decision Making	21.09	.0000*
11.	Procedures	23.52	.0000*
12.	Communication	15.35	.0000*
13.	Group Functioning	19.06	.0000*
14.	Interpersonal Relationships	4.96	.0000*
15.	Reward Systems	10.85	.0000*
16.	Leadership Dimensions	6.22	.0000*

Table 4: One Way ANOVA On 16 Variables of culture By Types Of Organisations
** Level of Significance = 0.01*

Results of One Way ANOVA on Overall culture as one variable, which are presented in Table-3, depict significant variation in the perceptions of respondents belonging to three types of - Well performing, Turned around and Sick organisations. The ‘F’ value, which is found to be 32.34 is much higher than the table value of ‘F’, which at the intersect of df 2 and 271, is 3.02 at 0.05 level of significance and 4.66 at 0.01 level of significance. Further test Scheffe reveals that the Well performing organisations, with Mean value 367.06, are significantly different at 0.05 level of significance than Turned around and Sick organisations, which have Mean value 329.21 and 325.59 respectively. However the difference between Turned around and Sick organisations is found to be insignificant. It seems that normative desirability of values pertaining to goals, work and organisational styles have influenced the perceptions of respondents with regard to desirable values, in all the three types of organisations.

On 16 variables also the results show significant variation in the perceptions of respondents belonging to three types of - Well performing, Turned around and Sick organisations when tested separately. However, Further test Scheffe reveals that the culture difference in Well performing organisations than Turned around and Sick organisations is significant on all the 16 variables at 0.05 level of significance, which is not the case between Turned around and Sick organisations. Here, except on procedures on all other variables the difference is found to be insignificant.

In general, the statistical scores of Well Performing Organisations are found to be significantly different than Turned around Organisations and Sick Organisations, on Culture as one variable interface each one of the described sixteen elements of culture. Well Performing Organisations were found to be well informed, risk taking, respectful towards employees' needs and feelings with high level of trust and openness. Authority is found to be decentralised with high achievement oriented workforce, with other factors risk taking and innovations were found to be vital for organisations' success.

However, turned around organisations were found to be insignificantly different than Sick Organisations. The reason for the above findings could be, that in Sick organisations and to some extent in Turned around organisations, the environment was secretive, with low level of trust. Organisations were found to be highly structured with emphasis on hierarchy, which in turn encouraged conformity. Rules and procedures were found to be followed meticulously to the extent that at sometimes they were reported to have become as obstacles in solving problems. Thus rules were viewed as end in themselves rather than means. It was like 'people for rules rather than rules for people'.

The findings for the present study are in alignment with the study conducted by Dr. Hay (1998)* on ten top ranking companies to determine what makes them great. He found that corporate culture of highest performing companies differed from the norm. These companies were found to have great emphasis on team work, customer focus, fair treatment of employees, initiative, rewarding superior performance and innovations in contrast with average companies, which did not believe taking risks, respected chain of command supporting the boss. Where Well Performing Organisations are well established and are in pink of health, Turned around Organisations, on the other hand, are in the process of recovering from sickness and convalescing. They are yet to be recovered fully. Hence, the mutual empathy between Turned around organisations and Sick organisations and the difference between Well performing organisations as one entity and Turned around organisations and Sick organisations as another entity. In fact Turned around organisations and Sick organisations, as mentioned earlier, have more things in common, leaving the difference in health to be a matter of degree only, unlike the contrast with Well performing organisations.

Thus, Well performing organisations on the one hand and Sick and Turned around organisations on the other hand are a contrast, unlike Sick organisations and Turned around organisations, which are comparable between them.

Conclusions

Distinct patterns of culture of well performing organisation Turned around organisations and sick organisations emerged from the study. Well performing organisations were found to have positive encouraging cultures with a clear vision, mission, strategies and practices. The internal environment was cordial, trustworthy, which contributed to creativity, high team spirit and flexibility in operations. Sick organisations were

* *Hay Group, 1998, Hay Group Measures Corporate Cultures of 10 on Fortune's List, November 3, Web. Site: http//www.hcgnet.com*

found to be on the other side of the spectrum. These organisations were found to be cold, conflict ridden and stressful with no clear values, mission and vision. These were highly bureaucratic with low dynamism in operations. Leadership was task oriented with tight controls over subordinates. The environment, as perceived by employees, was full of threats, secrecy and lack of creativity. The culture of Turned around organisations was found to be more nearer to sick organisations. Though, these organisations were found to be aware of their shortcomings and were engaged in making constant efforts to bring about positive changes in the culture of their organisations. Many of them had engaged management consultants to shape the culture of their organisation in a desirable direction.

Based on the findings of the study it can be concluded that financial excellence of organisations is related to the culture of the organisations. Positive culture is related to high financial performance and the Low positive culture is found be related to low financial performances.

Even two US based management consultants, Peter H. Fuchs and Terrence V. Neill(1996)* have presented some thoughts that are consistent with the points discussed above. They say that traditional versions of strategic planning are unsuited to today's dynamic environment, which requires on going flexible strategies to deliver real customer service and on line inputs to all the stakeholders of business. Hence speed and flexibility are the key requirements, which in turn means lot of pressure on human performance to sustain the competitive excellence. If strategy has to be implemental, the organisational ability for excellent execution has to be taken into account. In the words of the authors *"The suit must fit. Customised strategies must take account of the variables of technology, people, skills, processes and culture in an organisation"*.

Again the reference is to culture and other parameters on one hand and organisational success on the other.

* *Peter H. Fuchs and Terrence V. Neill, 1996, 'Managerial Model in an Uncertain World-I', Times of India, Jan. 1998.*

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♦♦♦

Annexure-1

*General Profile of Well Performing Organisations(WPO)**

Sr.No.	Type of Organisations	Core business operations	Regd. Corporate Office Location
1	WPO-1	Engineering - Civil, Mechanical, Chemical and agricultural engineering as main manufacturers, as importers and exporters and contractors.	Mumbai
2	WP0-2	Information Technology - Computer manufacturing	New Delhi
3	WPO-3	Manufacturing of Basic Industrial Chemicals, Pesticides, fumigants etc.	Mumbai
4	WPO-4	Manufacturing of Industrial electronics equipments and Power and Process control Equipments such as thermometry instruments, heat treatment control instruments, DC machines, etc.	Mumbai
5	WPO-5	Manufacturing and sales consumer goods	Mumbai

*Well Performing Organisations.

*General Profile of Turned around Organisations(TAO)**

Sr.No.	Type of Organisations	Core business operations	Regd. Corporate Office Location
1	TAO-1	Engineering	Thane
2	TA0-2	Printing Ink, Coatings, Varnishes, Resins and related chemicals	Mumbai
3	TAO-3	Textiles	Mumbai
4	TAO-4	Manufacture, sell and deal in gramophone records, radio receivers, radiograms, record players, record producers	Calcutta
5	TAO-5	Textiles/Readymade garments	Mumbai

*Turned Around Organisations.

*General Profile of Sick Organisations (SO)**

Sr.No.	Type of Organisations	Core business operations	Regd. Corporate Office Location
1	SO-1	Engineering (Forgings, Gear shifter forks, Track rollers, bearings etc.)	Mumbai
2	S0-2	Manufacturing of chemical dyes	Mumbai
3	SO-3	Heavy Engineering (Railway. Crossing point sleepers, heavy fabrication/boiler, T.V. Tower lines, Hand pumps)	Mumbai
4	SO-4	Textiles	Mumbai
5	SO-5	Manufacturing of metal containers and closures, hardware, plastics and engineering products	Mumbai

*Sick Organisations.

Annexure-2 The Financial Ratios Definition

$$Return\ on\ Total\ Assets\,(\%) = \frac{Net\ Profit}{Total\ Assets} \times 100$$

$$Profit\ Margin\,(\%) = \frac{Net\ Profit}{Sales} \times 100$$

$$\begin{array}{c} Return\ on\ Total\ Assets \\ (\%\ Cash\ Basis) \end{array} = \frac{Net\ Profit + Current\ Depreciation}{Total\ Assets}$$

What is the definition of a learning organisation ?

"A learning organisation is an organization skilled at creating, acquiring, and transferring knowledge, and modifying its behavior to reflect new knowledge and insights" - Graving

"A learning organisation is an organisation that continually improves by rapidly creating and refining the capabilities needed for future success" - Wick

"A learning organisation is an organisation where people continually expand their capacities to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together" - Senge

Yesterday's Philosophies
Today's Corporate Truths

these role models are:

♦ From meritocratic universities like the IITs and IIMs
♦ Highly principled — honesty, fairness
♦ Early risers
♦ Aggressive listeners
♦ Clear about their priorities

Role Models: Shri Azim Premji, Shri Narayana Murthy, Shri Sabeer Bhatia

'Mickey Mouse Culture' of Walt Disney Corporation brings out the powerful impact of a company's corporate culture on people. In its European Theme Park located in Marne-La-Vallee near Paris, new employees are exposed to new induction programme where they are familiarized with Disney's tradition, operating philosophy, history since inception, Disney Land Lingo ethos, acting and atmospherics, generic skills like gestures, greeting styles and specific skills such as sweeping up, answering the telephone and attending the car park. A cross cultural group, which went through the induction revealed that the French recruits were more reserved than their American counterparts. However, the training has it's toll. It was reported that some of new entrants have withdrawn from the training complaining that joining Disney Organisation is a bit like taking holy orders or in the opinion of few others, joining a sect.

In South West airlines Humour & Capacity to Work in a Collegial environment is important. The Chairman Mr. Kelleher quotes We hire attitudes. We Look for "listening, caring, smiling, saying thank you and Being warm". "Our people are result oriented, not Process oriented. They don't focus on organizational hierarchy or position or title" Kelleher has created air travel's Greatest Show on Earth

BEST PRACTICE

Management Development – A New Direction

Hierarchical Control	→	Empowerment
Management ownership of people development	→	Greater Individual Ownership
Grade based progression	→	"Value" based progression
Careers	→	Personal growth
Training Plans	→	Learning Plans
Behavioural emphasis	→	Marketable Skills emphasis

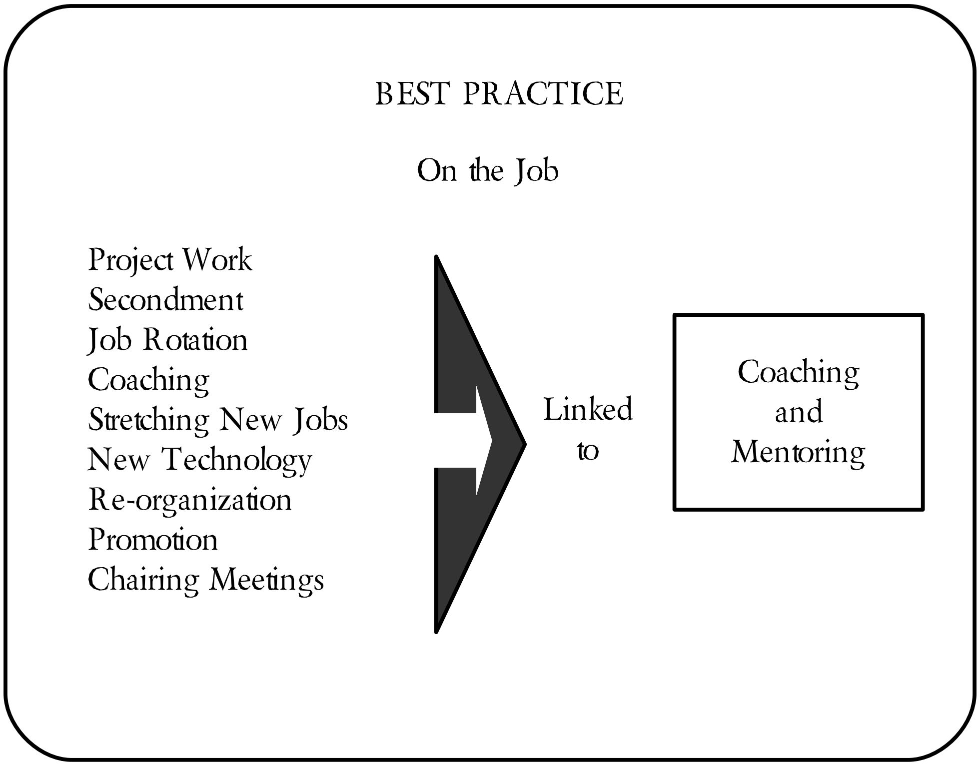
BEST PRACTICE

Reshaping Management Developement

From		To
Initial career education	→	Lifelong learning
Generalized concepts	→	Individually and organizationally tailored approaches
Imparting Knowledge	→	Supportng self-managed development
Functional education	→	Integrative learning
Distanced providers	→	Learning partnerships
Single service	→	Range of services

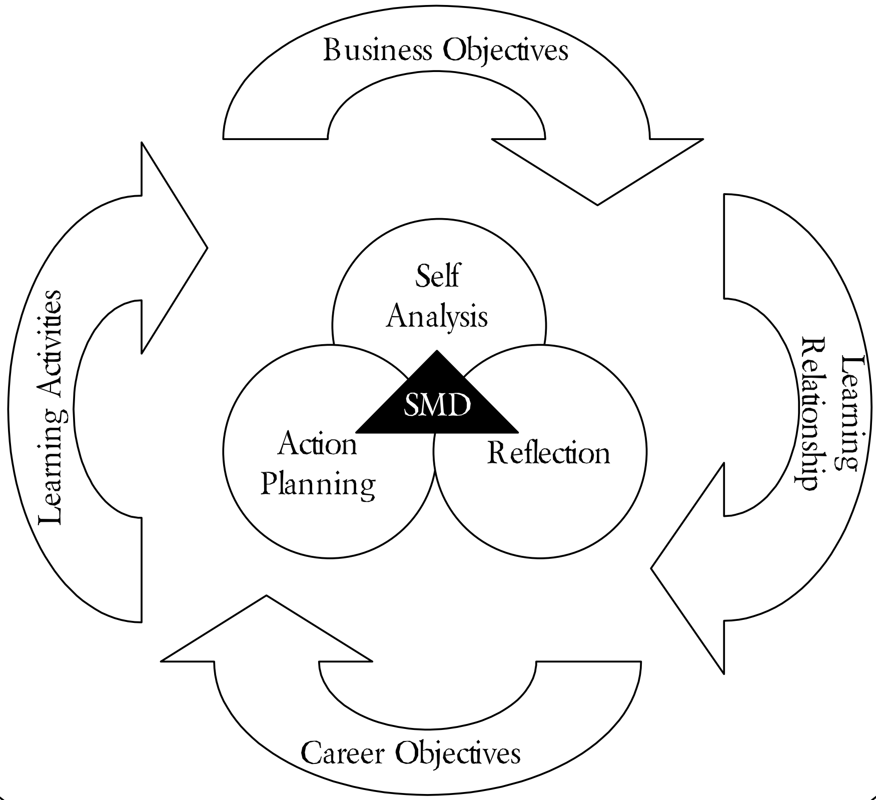
↓

Results Focused Management Development


BEST PRACTICE
On the Job
Project Work
Secondment
Job Rotation
Coaching
Stretching New Jobs
New Technology
Re-organization
Promotion
Chairing Meetings
Linked to
Coaching and Mentoring

BEST PRACTICE

A Model for Self Managed Development

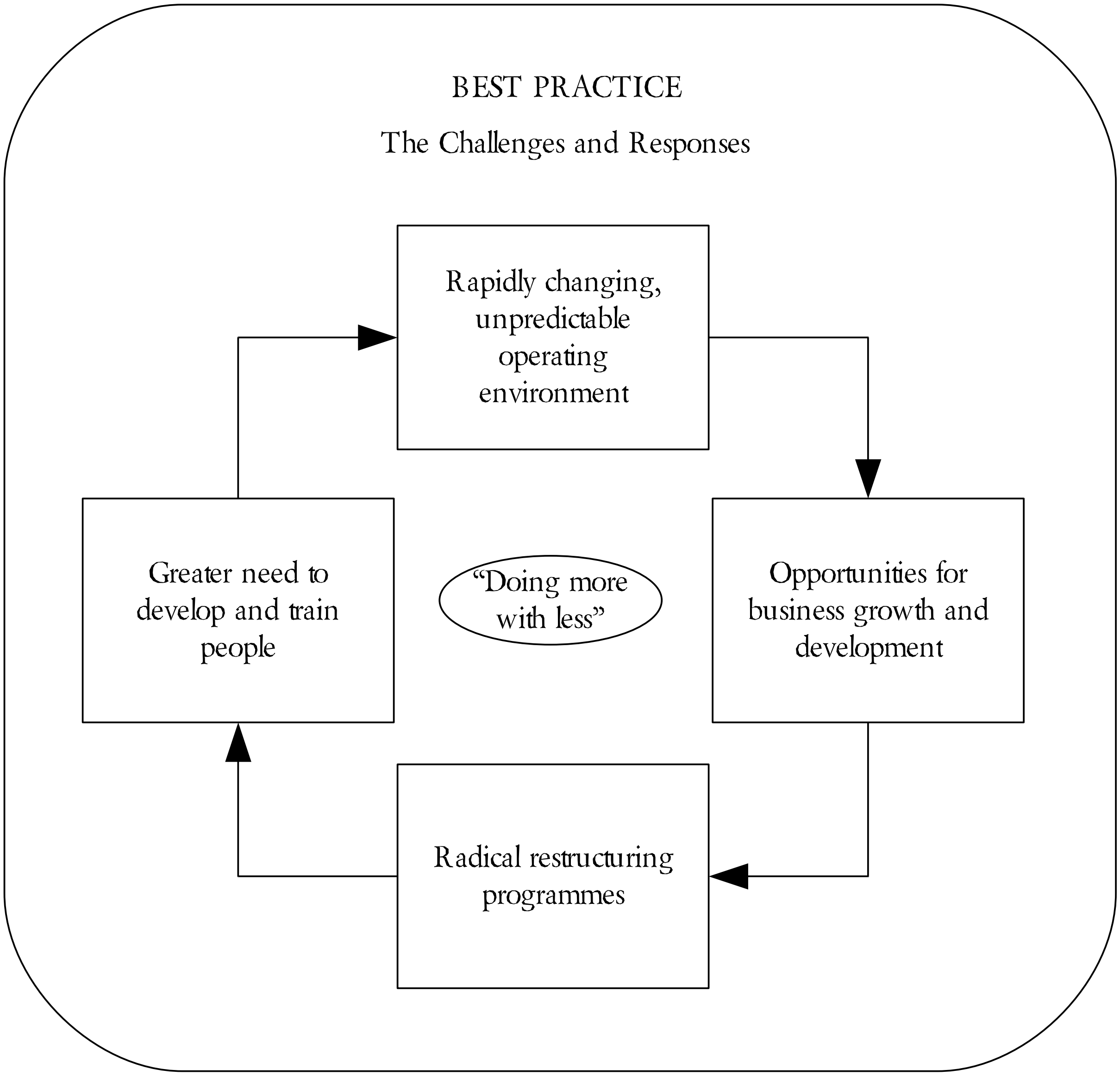


BEST PRACTICE

Learning Resource Centres

What's in them ?

Business Library
Videos
Multi Media Learning Packages
Journals
Audio Cassette
Data Base Acces
Internet/Intranet
Industry Information
Distance Learning Materials



Source: Ph.D awarded 1999 - Thesis of Dr. Indu Saxena (1998) JBIMS (University of Mumbai) under guidance of Dr. Guruprasad Murthy

Corporate Culture and the Indian Software Industry

Lt. Col. V. V. Raman

Introduction

This article tries to explain the concept of corporate culture in general, its effects on the performance of employees in an organisation. It then dwells on the specifics of the Indian software industry and then goes on to find out how organisational culture affects the performance of the software industry giving examples of specific software companies.

Understanding and assessing your organisation's culture can mean the difference between success and failure in today's fast changing business environment. On the other hand, senior management, particularly the CEO, often has a view of the organisation's culture that is based more on hope than a view grounded in objective fact. This paper will explore some of the problems associated with understanding the reality of an organisation's culture. It will also focus on the role of the leader in creating or maintaining this culture. Finally, it will discuss the perils of confronting the leader with an assessment of the organisation that flies in the face of his/her preconceptions.

Imagine you were asked to describe your organisation to an outsider. How would you answer the following questions?

- What 10 words would you use to describe your company?
- Around here what is really important?
- Around here who gets promoted?
- Around here what behaviours get rewarded?
- Around here who fits in and who doesn't?

In reality, what management pays attention to and rewards is often the strongest indicator of the organisation's culture. This is often quite different than the values it verbalises or the ideals it strives for. Think for a minute about the organisation in which you work. Does your management encourage or discourage innovation and risk taking? Does it reward employees for coming up with new ideas and challenging old ways of doing things or punish those who challenge established norms and practices? Do mavericks fit in or do they get pushed out? Is rapid change the norm in your organisation or does management vigorously protect the status quo? Does the organisation truly value excellence or is the mentality simply "just ship it"? Does management pay attention to the well being of its employees or is it completely focused on task performance and profits? Does a high level of employee participation characterise the culture or does senior management make most decisions? As you can probably see from your own responses, this kind of inquiry can give insight into the real culture of your organisation and some of its underlying values and norms. It may not even resemble the culture management thinks it has created.

What Is Culture?

Your organisation's culture is not the espoused list of values developed at an offsite by the executive team and framed on the wall in your lobby. These are ideals. What you strive to be as an organisation and what values you hope to endorse, may be different from the values, beliefs, and norms expressed in your actual practices and behaviour. Don't fool yourself. It is critical that you find out who you really are as well as striving for who you want to be. Awakening the emperor to the fact that he/she has no clothes is often a risky and delicate first step in closing the gap between the real and the ideal. Cultural assessment can provide measurable data about the real organisational values and norms that can be used to get management's attention. It can dispel some of management's illusions about what really matters in the organisation and will tell them how far off the mark things really are. Management may find that it is not practising what it preaches. However, telling the CEO the truth about the organisation he/she has built, can often be dangerous to your career progress. Delivering such a message takes skill as a coach and a willingness to take risks and confront conflict.

Basic Assumptions, Values And Norms Drive Practices And Behaviours

The culture of an organisation operates at both a conscious and unconscious level. Often the people who see your culture more clearly are those from the outside--the new hires, the consultants or vendors. When coaching or advising senior management, remember that culture comprises the deeply rooted but often unconscious beliefs, values and norms shared by the members of the organisation. Those not living inside the culture can often see it more objectively. Better to ask a New Yorker to tell you what Californians are like than ask a Californian.

Culture drives the organisation and its actions. It is somewhat like "the operating system" of the organisation. It guides how employees think, act and feel. It is dynamic and fluid, and it is never static. A culture may be effective at one time, under a given set of circumstances and ineffective at another time. There is no generically good culture. There are however, generic patterns of health and pathology.

Culture Operates At Various Levels - The Visible Artefacts To The Deeply Rooted And Unconscious

Culture can be viewed at several levels. Some aspects of culture are visible and tangible and others are intangible and unconscious. Basic assumptions that guide the organisation are deeply rooted and often taken for granted. Avoidance of conflict is a value that is an excellent example of an unconscious norm that may have a major influence on the organisation but is frequently unconscious. For an insider, this is difficult or impossible to see, particularly if the individual has "grown up" in the organisational culture. Recently hired employees, the external consultant and the executive coach is frequently in the best position to identify these unconscious assumptions or values. Espoused or secondary values are at a more conscious level; these are the values that people in the organisation discuss, promote and try to live by. All employees of Hewlett Packard, for example, are required to become familiar with the values embodied in the "HP Way."

Some of the most visible expressions of the culture are called artefacts. These include the architecture and décor, the clothing people wear, the organisational processes and structures, and the rituals, symbols and celebrations. Other concrete manifestation of culture are found in commonly used language and jargon, logos, brochures, company slogans, as well as status symbols such as cars, window offices, titles, and of course value statements and priorities. An outsider can often spot these artefacts easily upon entering an organisation. For insiders, however, these artefacts have often become part of the background.

The Role of the Leader in Transmitting Culture

One of the critical factors in understanding a corporate culture is the degree to which it is leader-centric. Ask yourself, how central is our leader to the style of this organisation? If you are the leader yourself, the culture of your company is likely to reflect your personality, including your neurosis. So if the CEO avoids conflict and tends to sweep it under the carpet, don't be surprised if you see avoidance of conflict played out in the organisation. The behaviour that is modelled by the leader and the management team profoundly shapes the culture and practices of the organisation. What management emphasizes, rewards and punishes can tell you what is really important. The behaviour of members of the senior team, their reactions in a crises and what they routinely talk about, all sets the tone of the culture. If the culture is already firmly established when the CEO assumed leadership and he/she simply inherited a strong set of traditions, then he/she may play the role of the guardian of the old culture. On the other hand, CEOs such as Lou Gerstner at IBM, or Lee Iococca at Chrysler were brought in to be a change agent charged with dramatically transforming the organisational culture.

Why Assess Culture?

Closing The Gap Between The Real And Ideal Culture

Why would a company be interested in assessing its culture? If the organisation wants to maximize its ability to attain its strategic objectives, it must understand if the prevailing culture supports and drives the actions necessary to achieve its strategic goals. Cultural assessment can enable a company to analyse the gap between the current and desired culture. Developing a picture of the ideal and then taking a realistic look at the gaps is vital information that can be used to design interventions to close the gaps and bring specific elements of culture into line. If your competitive environment is changing fast, your organisational culture may also need to change. However, you may only need to change some of its practices and secondary values while keeping a few precious and non-negotiable core values intact. Often an objective assessment tool can zero in on a limited number of elements of culture that need to change, rather than embarking on the futile attempt to change the entire culture.

Value and Goal Alignment across Subcultures, Divisions and Geographic Regions

In many companies there is a strong dominant culture that is pervasive throughout the organisation and across business units or even regions. This kind of organisation is said to possess a high level of cultural integration. However, often the culture in large organisations is not singular or uniform. Organisations can vary widely in terms of the degree of cultural integration and the strength of the subcultures that coexist. Subcultures may share certain characteristics, norms, values and beliefs or be totally different. These subcultures can function cooperatively or be in conflict with each other. In general, subcultures can differ by function, (engineering vs. marketing), by their place in the hierarchy, (management vs. administrators, assistants) by division, by site, or by geographic region and country.

It may be both undesirable and unrealistic to try to homogenise the organisation across all of its parts. Still, a thoughtful assessment of the culture can facilitate the alignment of values and strategic goals across subcultures and geographic areas. It is very important for global companies to tolerate and support a certain amount of cultural differentiation. Yet there may be a core of values, a subset of four or five deeply held principles that management thinks should cut across subcultures, divisions, and international settings.

Individual-Organisation Fit

Corporations that are growing fast must hire a large number of new employees. It is critical that these new hires are a good fit with the current culture. If an individual is out of synch with the culture, the organisation's cultural antibodies will often attack. However, there must also be a good fit with the culture that you are trying to create. It is now possible to make hiring decisions based on quantitative assessment of the compatibility between the candidate's personality, values and behaviors and both the current and desired culture.

Organisational Change

Today the pace of change is so rapid, particularly in the high tech industries. Only organisations that can adapt to this fast changing environment can survive. However, as Built to Last, by Jim Collins and Jerry Porris has demonstrated, enduring great companies are usually built on both a solid foundation of timeless core values, but also on the adaptability of their behavioural practices, secondary values, structures and other cultural artefacts. The secret to a company that will last is its ability to manage both continuity and change. Such companies are capable of responding with nimbleness to the environmental drivers that necessitate change in strategy and practices. These drivers include: rapid technological change, changes in industries and markets, deregulation, aggressive competition, the global economy, increased organisational complexity, new business models. Getting a profile of the current culture can enable organisations to thoughtfully bring the elements of the culture into alignment and move forward towards an ideal.

Organisations develop cultures whether they try to or not. If your intention is to appraise individual-organisation fit, align culture with its strategic goals, understand subcultures, assess mergers and acquisitions partners, or to make organisational changes in practices or values, understanding your culture in an objective manner can give you a business advantage and spare you enormous time and money. Not understanding your culture in today's business world can be fatal. Sometimes the emperor or empress needs to be told that his/her baby is ugly. Having objective measurement tools such as HCG's "Cultural Assessment Tool" can provide a consultant or coach with valuable objective measurement of existing culture. Executives are frequently analytical and quantitative in their orientation. Having data and an assessment tool to deliver a painful message may be the key to getting management to pay attention and face the reality of what kind of culture really exists. It is also useful in preventing the demise of the messenger.

Strong culture is said to exist where staff respond to stimulus because of their alignment to organisational values.

Conversely, there is Weak culture where there is little alignment with organisational values and control must be exercised through extensive procedures and bureaucracy.

Where culture is strong - people do things because they believe it is the right thing to do - there is a risk of another phenomenon, Groupthink. This is a state where people think so alike that they do not challenge organisational thinking, and there is a reduced capacity for innovative thought. This could occur, for example, where there is heavy reliance on a central charismatic figure in the organisation, or where there is an evangelical belief in the organisation's values.

By contrast, bureaucratic organisations may miss opportunities for innovation, through reliance on established procedures.

Innovative organisations need individuals who are prepared to challenge the status quo - be it groupthink or bureaucracy, and also need procedures to implement new ideas effectively.

Classifying Organisational Culture

Several methods have been used to classify organisational culture. Some are described below:

Hofstede

Hofstede demonstrated that there are national and regional cultural groupings that affect the behaviour of organisations.

Hofstede identified four characteristics of culture in his study of national influences:

- Power Distance - The degree to which a society expects there to be differences in the levels of power. A high score suggests that there is an expectation that some individuals wield larger amounts of power than others. A low score reflects the view that all people should have equal rights.
- Uncertainty Avoidance reflects the extent to which a society accepts uncertainty and risk.
- Individualism v/s collectivism - individualism is contrasted with collectivism, and refers to the extent to which people are expected to stand up for themselves, or alternatively act predominantly as a member of the group or organisation.
- Masculinity v/s femininity - refers to the value placed on traditionally male or female values. Male values for example include competitiveness, assertiveness, ambition, and the accumulation of wealth and material possessions.
- Long vs short term orientation

Deal and Kennedy

Deal and Kennedy defined organisational culture as the way things get done around here. They measured organisations in respect of:

- Feedback - quick feedback means an instant response. This could be in monetary terms, but could also be seen in other ways, such as the impact of a great save in a soccer match.
- Risk - represents the degree of uncertainty in the organisation's activities.

Using these parameters, they were able to suggest four classifications of organisational culture:

<u>The Tough Guy Macho Culture</u>. Feedback is quick and the rewards are high. This often applies to fast moving financial activities such as brokerage, but could also apply to policemen or women, or athletes competing in team sports. This can be a very stressful culture in which to operate.

The Work Hard/Play Hard Culture is characterised by few risks being taken, all with rapid feedback. This is typical in large organisations which strive for high quality customer service. They are often characterised by team meetings, jargon and buzzwords.

The Bet your Company Culture, where big stakes decisions are taken, but it may be years before the results are known. Typically, these might involve development or exploration projects, which take years to come to fruition, such as could be expected with oil exploration or aviation.

The Process Culture occurs in organisations where there is little or no feedback. People become bogged down with how things are done not with what is to be achieved. This is often associated with bureaucracies. Whilst it is easy to criticise these cultures for being over cautious or bogged down in red tape, they do produce consistent results, which is ideal in, for example, public services.

Charles Handy

Handy popularised a method of looking at culture which some scholars have used to link to Organisational Culture. He describes:

- Power Culture which concentrates power in a few pairs of hands. Control radiates from the centre like a web. Power Cultures have few rules and little bureaucracy; swift decisions can ensue.
- In a Role Culture, people have clearly delegated authorities within a highly defined structure. Typically, these organisations form hierarchical bureaucracies. Power derives from a person's position and little scope exists for expert power.
- By contrast, in a Task Culture, teams form to solve particular problems. Power derives from expertise so long as a team requires expertise. These cultures often feature the multiple reporting lines of a matrix structure.
- A Person Culture exists where all individuals believe themselves superior to the organisation. Survival can become difficult for such organisations, since the concept of an organisation suggests that a group of like-minded individuals pursue the organisational goals. Some professional partnerships can operate as person cultures, because each partner brings a peculiar expertise and clientèle to the firm.

Elements of Culture

Johnson described a cultural web, identifying a number of elements that can be used to describe or influence Organisational Culture:

- The Paradigm: What the organisation is about; what it does; its mission; its values.
- Control Systems: The processes in place to monitor what is going on. Role cultures would have vast rule books. There would be more reliance on individualism in a power culture.
- Organisational Structures: Reporting lines, hierarchies, and the way that work flows through the business.
- Power Structures: Who makes the decisions, how widely spread is power, and on what is power based?
- Symbols: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms!
- Rituals and Routines: Management meetings, board reports and so on may become more habitual than necessary.
- Stories and Myths: build up about people and events, and convey a message about what is valued within the organisation.

These elements may overlap. Power structures may depend on control systems, which may exploit the very rituals that generate stories.

Key Features of the Software Industry

The Software industry has certain distinctive features, These are:

(a) High growth and diversification.

(b) High rate of obsolescence.

(c) Application oriented.

(d) Wide reach and range of products.

(e) Industry constantly evolving and changing.

Paradigm shift in the environment

The word “paradigm” stands for Model or frame of reference. Today the major challenge before management in the corporate sector is the management of change. There is a definite change in the frame of reference of all forms of business from local to global as also changes in norms, standards and technology. All business systems are changing rapidly. However, the Software industry is changing even more rapidly due to the high rate of growth and obsolescence of its products. These changes are as under :

- Rapid changes in Information Technology.
- Shift from systems oriented to application oriented programming.
- Global orientation.
- Growth of IT enabled service industry such as BPOs.
- Rapid rise and growth of the internet.

- Customised use of software products.
- Convergence of telecommunication, computers and electronics.

Parameters of Corporate culture

The specific parameters of corporate culture areas as under:

➔ **Organisational Structures**: Reporting lines, hierarchies, and the way that work flows through the business.

➔ **Power Structures**: Who makes the decisions, how widely spread is power and on what factors is power based.

➔ **Control Systems**: The processes in place to monitor what's going on. Role cultures would have large rule books. There would be more reliance on individualism in a power culture.

➔ **Symbols**: These include logos and designs but would extend to symbols of power such as car parking spaces and executive washrooms.

➔ **Rituals and routines**: Management meetings, board reports, and so on may become more habitual than necessary.

Performance Indicators of Software Industry

These are as under

1. Financial indicators like
   1 Volumes of sales
   2 ROI
   3 PAT
2. Staffing indicators like
   1 Staff performance
   2 Turnover.
3. Electronic penetration indicators like
   1 User penetration count
   2 User penetration volume
   3 e-mail traffic
   4 e-commerce sales and e-commerce returns
4. Competitive indicators like
   1 Competitive application matrix
   2 Technology penetration trends.
5. Productivity indicators like
   1 Development productivity
   2 Production productivity.
6. Systems development indicators like
   1 Service request backlog
   2 Project status report
   3 Service request status
   4 Conversion status
7. Re-engineering indicators such as
   1 Re-engineered service performance
   2 Home office productivity
   3 Wireless usage penetration
8. Quality assurance indicators like
   1 Customer satisfaction index
   2 Efficiency of quality improvement programs
9. Service indicators such as
   1 Problem notification analysis
   2 Problem closure statistics.
   3 Installation repair management
   4 Speed of response
10. Industry specific indicators such as
   1 distribution
   2 education
   3 entertainment
   4 hospitality
   5 insurance
   6 manufacturing
   7 retail

How Corporate culture can affect performance in the software industry

a) Corporate culture and practices can improve the overall environment and thus have a positive effect on performance in the software industry.

b) Improved corporate culture can improve work ethic in the Software industry.

c) Well performing organisations are expected to be rated highest on culture profile in comparison to turned-around organisations and sick organisations.

As with any other professional, what really matters to software professionals is selecting 'the best place to work with'–which is what every company is striving to be. The global nature of this industry, and the 'project-environment' (as opposed to ‘product environment’) has added new cultural dimensions to these firms. In a value-driven culture, values are determined and shared throughout the organisation. Typically, areas in which values are expressed are: performance, competence, competitiveness, innovation, teamwork, quality, customer service, and care and consideration for people. Flat structure, open and informal culture, authority based on expertise and ability rather than position, and flexi-timings are some of the norms software firms follow. The idea is to make the work place a 'fun place' with the hope of increasing loyalty and commitment.

Conclusion

This article has tried to highlight the key aspects of culture in an organisation, discussed how it can affect the performance of its employees in general. It has gone on to deliberate about the Indian software industry and its characteristics. It then seeks to try and explain how the performance of the Indian software Industry has benefited from good organisational practices and a strong corporate culture.

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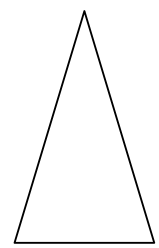
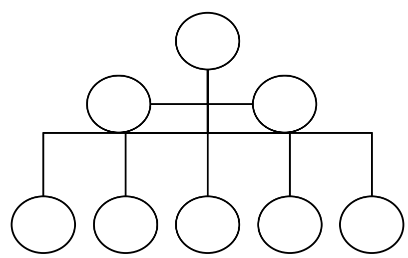
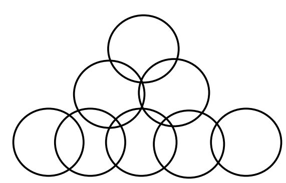
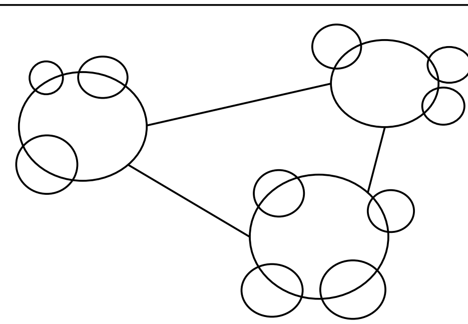
Organisational Development

80's and Before	Functional hierarchy	
Late 80's/early 90's	Delayering Decentralisation Business Units Outsourcing	
Early 90's	Integrated Value Management Process Redesign TQM	
Today	Networking Alliances Virtual Organisation	

Challenges of Corporate Excellence in a cross-Cultural Environment

Vilasini Patkar

> "Perfection is the Objective. Excellence will be Tolerated"
>
> — *Lufthansa Cargo Mission Statement*

Introduction

In modern times business has spread far and wide into large numbers and variety of organisations of different sizes and complexities; emphasizing the need for excellent, competent leadership. Corporate leaders need to handle business challenges tactfully. Their personal experiences, approaches and attitudes play a significant role in decision making. Sound leadership requires a thorough theoretical base, professional qualification and a research bent of mind, to experiment new ideas and strategies for successful leading. Leaders need to have not only a high (IQ) intelligent quotient-for innovations and application; high level thinking for good direction, policy changes and vision for the organisation but also a high (EQ) emotional quotient – to handle stressful situations with patience and poise. Thus, to attain leadership excellence, one must develop emotional maturity because only such leaders can adopt effective motivational techniques, proper communication and desirable leadership style. Individuals who can manage themselves can manage the whole world around them. This has called for a number of leadership excellence programmes, seminars, workshops, training and coaching the world over – as organisations strongly believe that "Leadership traits are not in born, but can be developed".

Role of Corporate Leader

Business leaders of the world are under tremendous pressure today than ever before, as they are required to deliver excellent corporate results in an ever changing dynamic global environment. In the growing competitive setup, excellence in corporate affairs depends heavily on - the speed, accuracy and economy, of the decision making process and its effective implementation. Human capital, in the form of organisational leadership, constitutes the most valuable asset of an organisation. The success and proper organisational management of corporate entities depends entirely on - the preparation of good strategies, plans and policies; their effective administration and proper execution; by managerial leaders, so as to ensure – the desired favourable performance. The dynamic and competitive global business setup is making organisational survival more and more challenging. To add to this, is the cross cultural diversity amongst employees and customers that needs to be handled delicately, to achieve business goals. Hence, the focus on "challenges of corporate excellence in a cross-cultural environment" the emphasis being clearly on 'achieving the great corporate goals of delivering the best, through the right type of leadership'.

Corporate leaders need to handle a variety of resources, which are not only scarce, but involve a cost. Effective leadership implies:

- Channelising the organisational activities by setting proper values and mission;
- Leading from front with clearly visible objectives and goals;
- Co-ordinating team efforts for desired performance by influencing the motives, attitudes and perceptions of all the employees in the organisation.

Factors Affecting Leadership Excellence

Leadership excellence is determined by personal characteristics that make some leaders outstanding. The three broad categories of knowledge and abilities to be possessed by a leader are – technical, organisational and psychological. A leader has to have broad working knowledge of technical requirement of his organisation. He has to be well versed in all the essential organisational functions such as co-ordinating, goal setting, planning, staffing, training, communication, research, motivation, control etc. He should also concentrate on the development of his personality through change in attitudes, style and understanding of self and others – particularly the employees and customers. Michael Feiner has rightly said that- "A leader must not only give followers structure, organisation and control, but also show courage, purpose, commitment, accountability and a sense of values" – [Human Capital Institutes, "Leadership Excellence", Nov. 2005]. An excellent leader is a good visionary, a strategist, an effective communicator, a motivator and a creative genius. He is enthusiastic about new approaches for effective results, and has a creative personality. Such leaders believe in empowering others, they use their team talents optimally and hence, succeed in achieving excellence in every activity undertaken. Excellence in leadership directs every planned effort towards "customer delight, high employee morale and commitment, enhancement of investors' value and sensitivity to societal concerns." The approach is thoroughly professional, progressive, forward looking and ethical. Such an excellence in leadership helps in maintaining good public/societal relations, there-by, contributing to the image, goodwill and reputation of the organisation. Thus, "excellent leadership implies not only doing things rightly but always doing right things only". Such value based leadership would contribute positively to the growth, development and prosperity of the organisation.

Influences of Cross Cultural Environment

Modern business organisations have to deal with multicultural situations, both - within the organisation as well as outside. The internal environment is influenced by the cross-cultural diversities on account of hiring of human resources from different countries, backgrounds, educational qualifications, races, religion, cultures and socialization. Such a mix is welcome as long as it generates positive interaction, new ideas, innovations, creativity and growth of individuals as well as of the business organisation as a whole. But if this sort of diversity leads to rivalry and conflicts, then it would pose a challenging task for the corporate leaders. The skill of excellence in leadership lies in handling such difficult situations tactfully in the best interest of the organisation. Under these circumstances, the top managerial leadership philosophy should be - to deliberately encourage diverse opinions and have intellectual discussions for arousing new innovative ideas, products and services.

Similarly, the excellence in leadership will be a challenging task in the context of satisfying the cross-cultural difference in customer requirements – influences of the external environment. The global customers are varied in their likes, dislikes, consumption patterns, income, sophistication, etc and above all they are highly aware of the variety of products and services available in the market. They have various market media options to make their purchases and hence the marketers have to concentrate on quality, pricing, prompt service and above all customer loyalty. This is truly a tight rope walk for the business leaders today. They have to devise their marketing and production strategies based on a detailed study of cross-cultural variations and satisfy the diverse consumers.

Understanding Cultural Dimensions

In a global business setup, understanding the cultural dimensions of business environment proves to be of strategic significance. Culture is an important constituent of the society at large. It reflects on every part of societal life. The culture is different in each organisation, country, family, society/community. Cultural differences are evident linguistically, behaviourally, symbolically, technologically, historically and regionally. Culture includes every facet of human life. It influences our material needs, social behaviour, belief systems, aesthetic sense and language. Business leaders need to study and understand these cultural influences on their business decisions. Leadership styles are also influenced by cultural practices. A proper understanding and adaptability of cultures on the part of leadership can make the organisational working dynamic and effective. The organisational work culture, management philosophy and ethos have a great impact on excellence in leadership. Of late, there has been a lot of emphasis on equity, accountability and transparency in business. Successful leaders have to imbibe these work values and communicate the same effectively throughout the organisation. If the required values are internalized and adapted according to the national culture, achieving excellence for an organisation would not be a distant dream.

Strategies for Handling Challenges of Corporate Excellence

The business leaders have to make their organisations "Learning Organisations" through continuous upgrading of knowledge, information and technologies. This has become an inevitable task. The employees in the organisation have to be equally motivated and should be made responsive to changes. This calls for continuous training in attitudinal aspects and technical skills.

Every organisation has to adopt benchmarking norms, to achieve grand success by adopting the best practices of excellent corporations. This means, every organisation will be continuously evolving, searching for and applying the excellent standards and strategies of the best of best corporations, leading to high competitive performance. Presently, this is the biggest challenge before managerial leaders, as they are required to constantly identify world class strategies, products, services, technology, etc. which could help in reducing the costs, improving quality, optimization of resources and greater customer response.

Excellence in business today is often evaluated by understanding the company's capacity to balance between two strong opposite forces of social and ecological challenges. The leadership need to concentrate, on a variety of factors, which vouch corporate sustainability i.e. survival, given difficult circumstances and situations from financial, competitive, social, ecological and ethical angles. They have to balance the various societal expectations through decisions on corporate social responsibilities, viz. employee health, welfare, retention, (loyalty); risk management; increased shareholder value and quality - price management. These challenges can be successfully handled only by leaders with vision, passion and conscience.

- Vision implies foresight, being an early bird in a dynamic environment;
- Passion implies an inherent urge for excelling in every endeavour, constantly directing efforts for being the best of bests;
- Conscience implies moral authority, strong ethical principles to guide formal authority in the right direction and achieve desired results.

India, being a vast country with inherent diverse cultures, our business leaders are naturally tuned to cultural adjustments. They respond positively to global multi-cultural environments and hence prove to be excellent corporate leaders. Our family system, societal make-up, large people force every where around – automatically induce people management skills in our business leaders. They are naturally groomed to think big. So, the post-liberalizations outlook of having a "Global Organisational Perspective" is being easily implemented by our large organisations. In a global organisation sustained high performance is critical to survival. The three strong pillars of any organisations' excellent performance are: Discipline, Development and Dedication.

- Discipline aims at setting things right and doing the right thing always – so that there is a continuous emphasis on right values, goals and objectives – leading to excellence.
- Development involves a vision of expansion, proper forecasting, strategic planning for growth and diversification and successful administration of planned strategies – leading to enrichment and prosperity by optimizing the organisational resources. This would be the reward for effective leadership.
- Dedication implies using the organisational setup for the service of humanity i.e. the global society at large and our socially and economically deprived communities in particular. Corporate social responsibility would go a long way in improving our community and in turn developing our nation. Ecological consciousness is another important responsibility of business organisations. Dedicated services by the corporate leaders would ensure building strong public relation and overall societal acceptance of corporate objectives.

Inculcating these three tenets of discipline, development and dedication, throughout the organisation is the most valuable three-fold task before corporate organisations and their leaders today. Achieving this ultimate challenge is possible through concentrated efforts in developing the harmonious human personality of our business leaders – physical, intellectual, aesthetic and ethical. The leaders should be professionally educated and trained to manage with human touch. Leaders should be intelligent, knowledgeable, competent, dynamic and balanced in character; so that they provide the right kind of leadership. They must lead their organisations to glory and profitability, through excellence in every sphere of organisational activity.

Conclusion

Excellent Leadership can be achieved though emphasis on:

People power	-	Valuing people, not assets
Trust and Confidence	-	Loosening control and managing
Empowerment	-	Effective delegation and managerial freedom
Constant learning	-	Knowledge management and communication
Societal sharing	-	Shaping the human community and promoting social good

Hence, a good leader is one who would:

- Inspire and motivate his followers, not drive them/force them to follow him – willing acceptability by followers
- Lead through good will and understanding – not authority, power or position
- Radiate love – not fear
- Say "We" – not I
- Know what's wrong – not who's wrong
- Show how to do it – not just know how it is done and finally
- Command respect – not demand respect.

Effective, excellent leadership needs self-discipline, team-spirit, patience, openness, respect and trust in subordinates and peers. A leader with all these attributes would definitely lead an organisation to excellence even a midst cross-cultural diversities and dynamic, multi-environmental challenges.

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"Error is the backyard of Excellence"

Source: Anurag, The speaking tree, Times of India, 5th April 2006

Pygmalion Effect: Understanding Implications of Manager Subordinate Relationship at the Work Place

Dr. Pooja Lakhanpal

Introduction

The Indian business scenario is currently undergoing a process of change. The process of economic liberalisation which began in the early '90s is forcing organisations to bring about changes in the way business is thought about and conducted. The new business order has brought with it many challenges that the Indian industry is gearing upto face. Changes in the market place with increased emphasis on consumerism are leading organisations to rethink their business strategies. Globalisation and the technological growth in the information technology sector have shrunk inter and intra environment of organisations.

Many Indian organisations and business houses are still family run. In 1947, eighteen families owned nearly every company of consequence in the Indian economy. In 1997-98, 461 of the 500 most valuable Indian companies were controlled by 50 Indian families (Agarwala, 2001). Corporate boards are still controlled by the industrial houses through their nominees, friends and relatives. Changes have been taking place in recent years at the top level in the face of increasing competition, liberalisation policies and restructuring with a focus on core competence. They have become professional to some extent but the influence of the 'family' and family members are ever present. Even today many organisations begin their workday by the daily ritual of seeking the blessing of the concerned 'deity' whose presence is established within the four walls of the organisation. Technology change, influx of new professional breed of managers and increasing competition is creating a change in the cultural ethos of these organisations.

Ghoshal, Piramal and Bartlett (2000) in their book, 'Managing radical change', have written about features that characterize Indian organisations. These features are 'constraints', ' compliance', 'control' and 'contract'. They emphasize the need to change these features to 'stretch', 'discipline', 'support' and 'trust'. They further go on to say, "…as opposed to confronting the reality, people create rationalizations on the one hand, and they bring down the levels of aspirations on the other, so as to remain satisfied with that level of under-performance…stretch is the antithesis of satisfactory under-performance. It means that every individual in whatever he/she is doing is trying to do more, rather than less…all of them are also pushing everyone around them, pushing the management, pushing the company to do more, to do better".

The changes in the business order have necessitated change in the work ethos of Indian organisations. In every area of business 'relationships' are gaining critical importance. As the gap narrows amongst organisations with regard to deliverables such as product innovation, value for money (pricing) product quality and customer loyalty, selection and retention of human resources is becoming an arduous task. Organisations now believe that 'relationships' are going to provide the differentiation. Organisations are trying to develop stronger ties with both external as well as internal clients.

Growth of information technology while increasing information flow within the organisation has paradoxically reduced the 'personal' contact between organisation members. Traditional theories of managers being able to influence subordinates through different power structures and leadership styles may no longer be able to hold their ground. Indian organisations are being forced to rethink organisation processes, systems, structures and ways of working. However in the Indian context relationships are very critical in personal as well as professional life. Very often personal relationships extend into professional ones and professional relationships into personal. Family ties are binding. Relationships between teachers and students (at least at the school level) may not be based on the traditional 'guru' and 'disciple' format, yet the bonds are still strong.

In a survey of Indian organisations, several CEOs were asked regarding what they really wished to learn, most of them articulated two needs: 'How do I lead my people?' and 'How do I keep myself contemporary?' (Malini Bhupta, ET, June 1-7 2001). This is a dilemma that most Indian organisations are confronted with. The age old concept of patriarchal family leadership is no longer acceptable to younger professional managers. At the same time the values and traditions that have dominated Indian business are still very strong. The solution may lie in the 'Pygmalion' framework of leadership.

> "In a liberalized economy…instead of capital or licenses, people become the scarce resource and the primary source of competitive advantage. Hiring and retaining only geniuses is not possible. The competitive challenge then becomes one of creating an internal context in which ordinary people can produce extraordinary results" (Ghoshal, Piramal and Bartlett, 2000).

Given the above scenario it becomes important to take a fresh look at relationships within the organisation. As the cost of selection and training increases organisations are looking at various strategies to retain their human resources. In such working conditions it becomes important to understand the nature of manager subordinate relationship. Since the individual in the Organisation spends a substantial amount time of his working hours with his manager (boss), the nature of this relationship influences his adjustment within the organisation, the degree of stress that he experiences and his performance. In the current study Manager – Subordinate relationship has been examined in the context of the 'Pygmalion Effect'

Pygmalion Effect

The name 'Pygmalion' was adopted from Greek mythology. Pygmalion, king of Cyprus was an accomplished architect. He was also a woman-hater. He carved out an ivory statue of an ideal woman, who for him embodied the perfection of womanhood. Pygmalion fell in love with his own creation and prayed to the goddess Aphrodite to bring the statue to life. The goddess took pity on him and granted his wish and named her Galatea. George Bernard Shaw incorporated this myth into his famous play called 'Pygmalion', where Professor Higgins takes on the task of transforming an ordinary flower girl (Eliza Doolittle) into a princess. From mythology and literature 'Pygmalion' has travelled the road to teacher expectancy and manager expectancy.

Merton (1948) defined a self fulfilling prophecy as a false definition of the situation evoking a new behaviour which makes the originally false situation come true. Henshel and Kennedy (1973) have defined it as self fulfilling prophecy (SFP). This SFP is referred to as the Pygmalion Effect when studied in the context of interpersonal relationships (Livingstone, 1969). The Pygmalion effect commences when a person develops expectations about a target person. Next the perceiver acts towards the target person on the basis of these expectations. The expectations are then communicated to and interpreted by the target person. Over time the target person internalises these expectations on the basis of his or her interpretations (Darley and Fazio, 1980). Research in the area of managerial expectations and their effect on subordinate performance began almost three decades ago when Livingstone (1969) talked about it in his classic article published in Harvard Business Review. This concept was adopted from research in the educational setting that focused on teacher expectancy process and effect on student performance. Research on expectancy process began in early fifties but was given a more definite thrust by Rosenthal and Jacobson (1966) when they initiated their research on teacher expectancy process. Teacher expectations affecting student performance was demonstrated by Rosenthal (1972). In the book 'Pygmalion in the classroom' Rosenthal says, "…to summarize our speculations, we may say that by what she said, by how and when she said it, by her actual facial expressions, postures and perhaps by her touch, the teacher may have communicated to the children of the experimental group that she expected improved intellectual performance. Such communications together with possible changes in teaching techniques may have helped the child learn by changing his role concept his expectations of his own behaviour, and his motivation, as well as his cognitive styles and skills."

During the course of our experience with others we learn to expect characteristics to co occur. As Rosenberg and Jones (1972) pointed out, that expectations about others generally consists of; (a) the categories we employ to describe the range of abilities, attitudes, interests, physical features, traits and behaviours that we perceive in others; and (b) the beliefs we hold concerning which of these perceived characteristics tend to go together and which do not.

Just as teacher expectations have an effect on student performance, it was recognized that managerial expectations too could have an effect on subordinate performance. As Livingston (1969) says in his article 'Pygmalion in management', "Some managers always treat their subordinates in a way that leads to superior performance. But most managers unintentionally treat their subordinates in a way that leads to lower performance. The way managers treat their subordinates is subtly influenced by what they expect of them…it is as though there were a law that caused a subordinate's performance to rise or fall to meet manager's expectations." Livingstone cited many case studies where he highlighted the effect of manager expectation on subordinate performance.

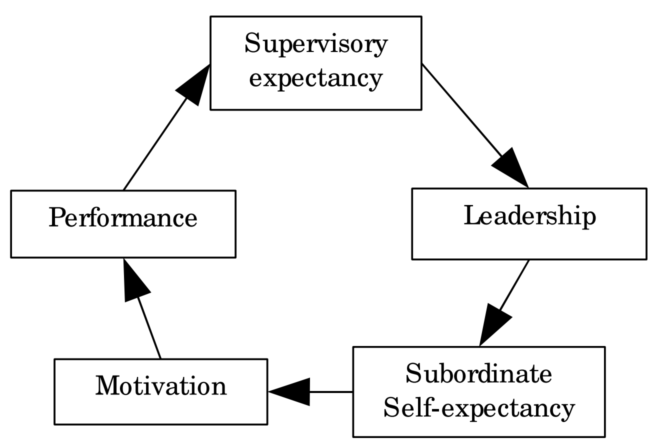
The expectancy process clearly implies that expectations and their effect are part of interpersonal relations, it occurs between the perceiver and the target. The perceiver is usually of 'high' status such as the teacher or the manager, who has some form of relationship with the target and a degree of influence over the outcome. The perceiver's expectations get communicated, intentionally or unintentionally, to the target. In other words there has to be a relationship between the perceiver and the target and communication (verbal or non verbal) before the perceiver's expectations can have an impact on the target.

In the management context, expectations are inherent in the selection process, socialisation process and in the process of performance reviews. Although all interpersonal relations at work including those with colleagues and co-workers improve the work environment, research has focused mainly on the manager-subordinate relationship. The reason for this relationship being critical is that it can impact not just the performance of the subordinate, but also the unit or department or the organisation on the whole. For the subordinate, his manager becomes the most important person to translate formal and informal organisation practices. The manager provides role clarification to the subordinate. In many ways the managers also become a role model for a new employee.

Most research has been very supportive of the Pygmalion effect. Literature on expectations has already demonstrated that effect of expectations on performance range form 0.1 to 0.2 (Jussim, 1991). However most of the research conducted in the area of management has concentrated on training and the interview process. Most of the research has involved manipulated expectations. Less research has been conducted in actual work settings especially at the dyadic level. The formation of expectancies applies to leaders and members as both form expectations of each other during the course of their interaction. The literature available on self fulfilling prophecy indicates that research has focussed entirely on expectations a relatively higher status individual (teacher, manager, and interviewer) has concerning a target. However individuals with less status also form expectations.

Eden and Ravid (1981, 1982) demonstrated that trainee's self-expectancy mediates Pygmalion effect. They termed this as Galatea effect. They had a psychologist tell a random subset of trainees that they had high potential to succeed in the course. The trainees outperformed the controls. This study demonstrated that high expectations conveyed by a credible, authoritative source motivates subordinates to mobilise more of their own resources to perform well.

Fig. 1: A Model Of Self-fulfilling prophecy at work



(Source: Eden, 1984, Academy Of Management Review, 9(1), 67)

3. Manager-Subordinate Relationship

The relationship between manager and subordinate has been examined within the theoretical framework of leader - member exchange (Graen and Schiemann, 1978). As managers are the closest link to subordinates with the overall organisation, subordinates' perceptions of culture and climate are shaped by the manager. Through the socialisation process organisations convey their expectations to the subordinates. Research on manager subordinate relationship has highlighted that managers show differential treatment towards subordinates. They exhibit different behaviours toward subordinates perceived to be high performers and subordinates perceived to be low performers. Managers' attribution of subordinate performance also affects manager behaviour towards subordinates.

Manager subordinate relationship has always been an area of concern. Research has tried to determine to what extent does the manager influences the subordinate, to what extent does it affect subordinate performance and whether this relationship is reciprocal in nature. One of the few models dealing with manger subordinate relationship is the leader member exchange (LMX) model (Dansereau, Graen and Haga, 1975; Graen and Scandura, 1987). According to LMX model leader member relations emerge from a series of dyadic interactions and exchanges termed the role making process. This interactive role – making process is conceptualised as occurring through the following three phase sequence: a) role taking, b) role making and c) role routinisation (Graen and Scandura, 1987). The key process variable, Negotiating Latitude (NL) signifies the nature and quality of relationship that develops through these reciprocal interactions (Graen and Scandura, 1987). Group members high in NL are more trusted, have more discretion, and have better communication with their leaders than members low in NL (Liden and Graen, 1980). Over time relatively distinct clusters of members develop. Those high in NL are labeled in-group members and those low in NL are labeled out-group members (Duchon, Greene and Taber, 1986). According to the LMX theory, leaders differentiate among their subordinates within the work-unit. Leaders develop a different type of relationship with each subordinate. A recent meta-analytic review of the leader-member exchange theory conducted by Gerstner and Day (1997) found significant positive correlation between LMX and objective performance. However, their findings also suggested that LMX is more strongly related to subjective performance ratings and member affective outcomes, than to objective measures such as productivity and turnover. Thus having a high-quality relationship with one supervisor can affect the entire work-experience in a positive manner, including performance and affective outcomes.

Graen, Novak and Sommerkamp (1982) conducted a field experiment in which leaders were trained to maintain high-quality relationships with their members. The LMX intervention was very successful at increasing performance and satisfaction. Studies have demonstrated that higher the quality of relationship between manager and subordinate, greater would be the agreement between manager and subordinate regarding the meaning of certain mutually experienced events. If a manager and subordinate have a high-quality dyadic relationship, the manager would be more aware of the problems confronting the subordinate on the job. The manager is more sensitive to the subordinate's job and gives more attention, information and support to the subordinate (Graen and Schiemann, 1978). Research has determined that leader behaviour is an important variable related to organisational effectiveness. Much of the empirical evidence on organisational leadership has come from the numerous field studies investigating the relationship between leadership styles and subordinate performance and satisfaction (Fleishman, 1973). Most often the importance attributed to leader behaviour stems from the presumed effect of the leader's behaviour on his subordinates performance and job satisfaction. Substantial amount of research has demonstrated that leadership style affects subordinate performance. Day and Hamblin (1964) found subordinate performance varied according to the leader's use of punishment and closeness of supervision. Leader can positively affect subordinate performance by increased emphasis on both consideration and structure (Greene, 1975). When supervisors were perceived to initiate structure, set goals, assist with problem solving, provide social and material support and give feedback on job performance, their subordinates experienced lower ambiguity and uncertainty and hence greater satisfaction with their job. This

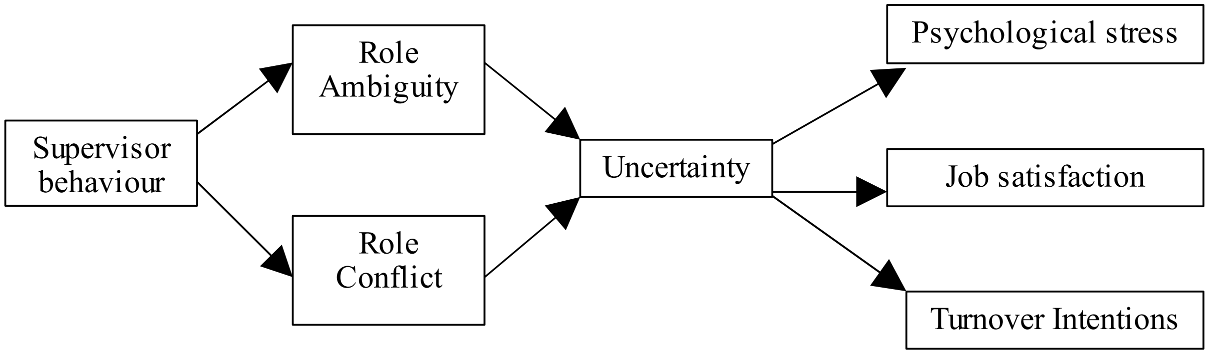


Figure 2: Impact of Supervisor Behaviours, Role Stressors on Uncertainty and Personal
(Source: Driscoll and Beehr, 1994, Journal Of Organisational Behaviour, 15, 148)

relationship has been depicted in the following model (Fig. 2).

Outcomes

Research in this area also indicates that manager – subordinate relationship is reciprocal in nature. This has been demonstrated by the leader- member exchange model (Graen and Scandura, 1986). It is also temporal in nature. According to the LMX model, supervisors and subordinates will not collaborate in situations representing growth opportunities for the subordinate unless both expect to gain something. At the early stages of a supervisor - subordinate relationship, more contact and collaboration would be expected since through such action the manager could instruct the subordinate with respect to task behaviour and directly intervene in socialising the subordinate to non-task expectations. Hence subordinates would be expected to be more attentive to manager behaviours. As the duration of the manager-subordinate dyad lengthens, the subordinate becomes more acquainted not only with job requirements, but also with the supervisor's desires, value system etc. Thus longer a subordinate works for the same supervisor, the less impact the supervisor's behaviour has on performance (Mossholder, Niebuhr and Norris, 1990). The implication is that once leaders have accommodated to the resources offered by the subordinate (e.g., loyalty, compliance, performance – Zahn and Wolf, 1981), the behaviour toward that subordinate tends to become consistent and homogenous. Research has shown LMX to be negatively related to turnover (Graen, Novak and Sommerkamp, 1982; Wayne and Ferris, 1990), frequency of promotions (Wakabayashi, Graen, Graen and Graen, 1988), and desirability of work assignments (Liden and Graen, 1980). LMX has also been found to be related to job attitudes, leader attention, leader support, participation in decision-making, and amount of time and energy invested in the job (Crouch and Yetton, 1988; Dansereau et al, 1975, Kozlowski and Doherty, 1989). There is however need for a more integrative research on initial manager expectations, change in expectations, effect on subordinate performance, attributions of performance and their effect on manager expectations within the context of manager subordinate relationship.

In the current study a model based on previous research has been proposed. The model has been described in four stages. In the first stage Managers develop expectations about subordinate future performance. They have been termed as initial expectations (IE). These expectation are based on prior information about the subordinate such as education, academics, background, work experience, etc. Prior research in this area has thoroughly examined factors that lead to formation of these expectations and hence are not a focus of the proposed research. In the second stage the expectations a manager has, leads to differential treatment (DT) of subordinates. Manager treats subordinate from whom he has high expectations differently from those whom he has low expectations. In stage three the differential treatment has an influence on subordinate performance (SP). IN the fourth stage managers attribute subordinate performance (AP) to different factors, which in turn leads to change in initial expectations. The manager revises his expectations (RE) about his subordinates. As the relationship between manager expectation and subordinate performance is influenced by various individual and organisational factors they have also been included in the study.

The specific variables that were selected for study included managers' initial expectations, subordinate performance, attributions of performance and managers' revised expectations. The individual factors of managers and subordinates consisted of family background, education, academic performance, locus of control, personality and leadership style. Organisational factors such as culture and structure of the organisation were also included.

The Pharmaceutical sector was selected for study. Today the pharma sector in India is considered to be a sunrise sector, next to the software industry. The sector comprises of private owned Indian pharmaceutical companies, Multinational companies and Public Sector undertakings. The Indian pharmaceutical companies have gained recognition internationally as well. Another reason for selecting the pharma companies was that they employ a variety of man-power. This ranges from R&D scientists, product engineers, shop floor staff, support staff (personnel, administration, finance, account and legal) and marketing and distribution personnel. This requires a high degree of coordination amongst all. In such a scenario interpersonal issues become critical and relationship management becomes very important. The final sample consisted of two organisations representing Indian owned private companies, two organisations representing Multinational companies and one organisation representing Public Sector Undertaking. Care was taken to ensure that the organisations were more or less similar in the nature of business i.e., bulk drug and formulation manufacturing and marketing and also relative financial turnover. Total sample achieved was 375. Out of which 6 questionnaires were removed as they were not usable. Therefore the total sample was 369.

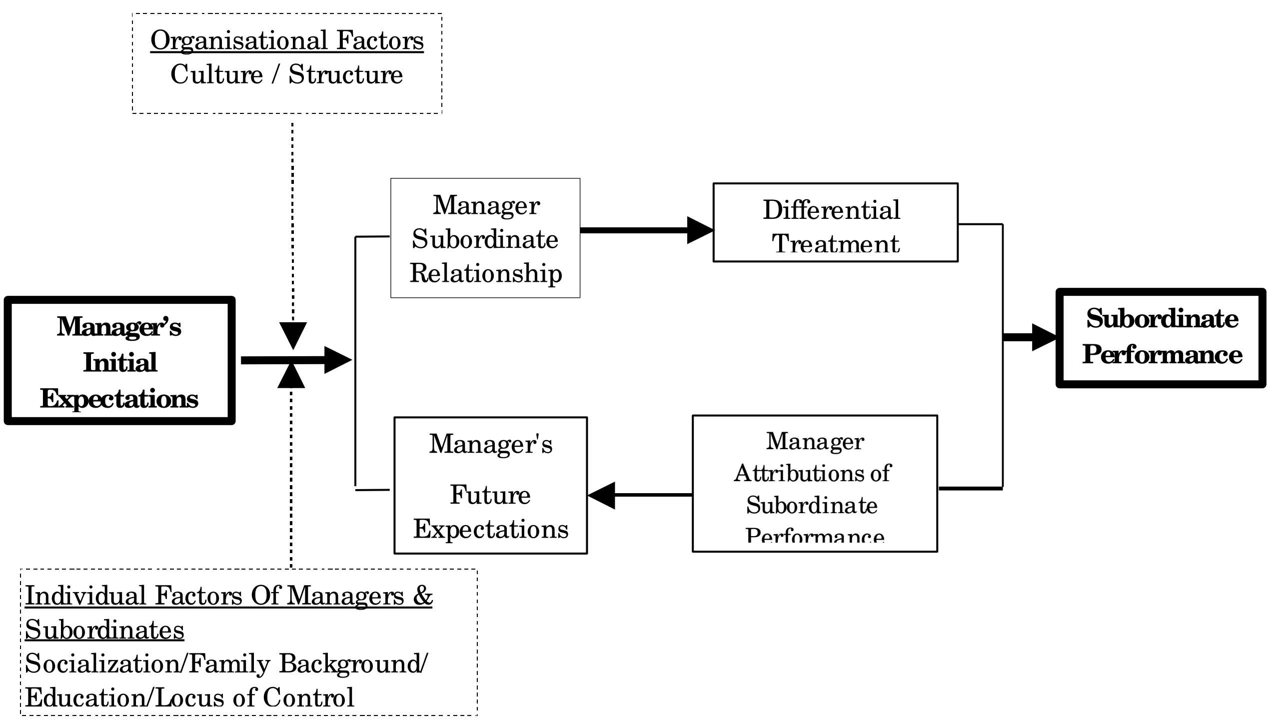


Figure 3: A Model for studying Expectation Process in Organisations

Table 1: Sample Description of Organisations

		Org A	Org B	Org C	Org D	Org E
Age	Younger	69	25	55	15	15
	Older	51	11	24	33	34
Sex	Male	95	41	50	34	41
	Female	29	--	40	17	10
Marital Status	Married	89	27	50	43	50
	Single	24	12	29	5	--
Qualification	Graduate	49	22	20	22	10
	Post-graduates	64	15	54	26	42
Managerial Position	Junior	37	18	58	10	10
	Senior	87	22	30	40	42

In the total sample 71% of the respondents were males and 26% were females. 54% of the managers were in the age group of 20 to 35 years (young) and 46% of the managers were in the age group of 36 to 52 years (old). In terms of their educational qualifications 46% of the respondents were graduates and 54% were postgraduates. On examining the Locus of control responses, it was found that 63% of the respondents had Internal Locus of control. With regard to Type A and Type B personality 54% were Type A and 40% of managers had low transformational leadership style and 32% had higher transformational leadership style.

The data was collected using the survey methodology with the help of a structured questionnaire. The method of developing the questionnaire was based on the procedure suggested by Sommer and Sommer and Nigel King. They have both recommended the use of interviews in order to learn the range of activities about which questions are to be asked. Therefore the data obtained through the exploratory study amongst managers was used to develop the questionnaire. The questionnaire included close ended as well as open ended questions. The questionnaire was developed in two stages. The questionnaire consisted of close ended as well as open ended questions. Scales were designed to measure qualities of an ideal boss and ideal subordinate to determine expectations. The same items were used for measuring current boss ratings and highest and lowest performing subordinate respectively. The scale for determining the qualities of an ideal boss consisted of 32 items and 5 point scale was used with 5 being strongly agree and 1 being disagree strongly. The alpha coefficient was 0.93. The scale for determining the qualities of an ideal subordinate consisted of 28 items and 5 point scale was used with 5 being strongly agree and 1 being disagree strongly. The alpha coefficient was 0.91. Scale for determining the perceptions regarding current boss had similar items as the scale for ideal boss. The alpha coefficient was 0.96. Scales for measuring perceptions regarding current highest performing subordinate and current lowest performing subordinate were the same as scale for ideal subordinate. The alpha coefficients were 0.94 and 0.96 respectively. The scale for determining boss behaviour consisted of 24 items and a 3 point scale was used with 3 being always, 2 being sometimes and 1 being never. The alpha coefficient was 0.69. In order to understand the measures of performance managers were asked to agree/disagree with given measures of performance. There were 23 items and 5 point scale was used with 5 being strongly agree and 1 being disagree strongly. The alpha coefficient was 0.93. The scale developed by P.N. Singh and Asha Bhandarkar (1992) for measuring organisation culture was used. There are 18 items. 7 point scale has been used with 1,2,3 being low, 4, 5 being moderate and 6, 7 being high. Alpha coefficient was 0.94. The scale developed by Bass (1985) to determine the leadership style was used. There are 20 items. Respondents are asked to about the frequency of certain behaviours that they have displayed. 5 point scale has been used with 1 being Always and 5 being not at all. Alpha coefficient was 0.94. An adapted version of Rotters' Locus of Control scale was used to determine locus of control. There are 10 items. Forced choice method has been used i.e. respondents have to choose between A or B. The scale developed by R.W. Bortner (1966) was used to determine Type A or Type B personality. There are 7 items. Respondents have to indicate which statement they agree with the most by marking on an 8 point scale.

Data Analysis and Results

The data were subjected to various statistical analyses. Apart from descriptive statistics, regression analysis was carried out to understand the impact of various independent variables on dependant variables. Factor analysis was carried out on scales used to measure qualities of ideal boss and ideal subordinate, boss behaviour towards subordinates and measures of performance. Qualitative analysis of all the open ended questionnaire was also carried out. The entire process of expectation formation and communication was examined. Impact of various demographic, individual and organisational variables on initial expectations, performance and future expectations was assessed. A number of variables and relationships have emerged as significant. Significant differences between ratings on ideal boss and current boss has emerged on a variety of qualities indicating that subordinates do form expectations regarding their managers and their current bosses do not live upto these expectations on a number of qualities. Significant differences also emerged regarding manager expectations of subordinate performance. Change in expectations was also examined and the results indicate that managers do revise their initial expectations. Revised expectations of managers are higher than initial expectations. Perceptions regarding boss behaviour differ according to perception of high or low expectations. Respondents who perceive their boss to have high expectations from them have rated higher expectation match with their current assignment, role and subordinates.

The process of expectation formation begins with initial expectations that the managers have regarding their subordinates. In the current study managers were asked whether they form expectations or not. 82% of the managers reported that they do form expectations regarding their subordinates. Managers were also asked whether they communicate their expectations. 67.2% of the managers stated that they communicate their expectations to subordinates. The question on manager's perception of subordinate awareness of expectation showed 73.4% of the managers felt that the subordinates were aware of managers' perceptions. It may also be noted that 62.2% of the managers' perceived that their expectations had a 75% influence on subordinate performance.

In order to determine if expectations were being perceived or not, managers were asked whether they are aware of their boss' expectations and if so, were they high or low. 73% of the respondents reported they were aware of their boss' expectations. Out of which 67% perceived that their boss had high expectations from them. More than 50% of the subordinates have reported that their boss did not show differential treatment. 40% of the managers reported that their boss treated subordinates differently. It is visible from the table that around 18% of subordinates were not aware of expectations of their boss at all and 10% reported ignorance of type of treatment.

Correlation analysis was conducted to observe the inter-co-relation amongst variables. Table 4.3 shows that age was positively correlated with designation (r=0.37), total work experience (r=0.96) and time spent in the organisation (r=0.78). It was also correlated with belief of managers that expectations can be used to improve performance. Designation was correlated with total work experience (r=0.40), time spent in the organisation (r=0.25) and qualification (r=0.18). Designation was also positively correlated with belief of managers in expectations (r=0.12) and manager subordinate relationship (r=0.14). This relationship shows that age not only increases maturity of the person but also plays an important role in changing the outlook regarding peers and subordinates. Belief in expectations influencing performance was correlated to total work experience (r=0.18) and manager subordinate relationship (r=0.11). Manager subordinate relationship was correlated to designation, belief in expectations influencing performance, total work experience and time spent in the organisation. As managers grow in the organisation and spend more time in the organisation they tend to acquire better interpersonal skills. Their relationship with their subordinates and boss also improves. This also indicates that importance of forming good relations and motivating subordinates also becomes more critical as managers grow in the organisation. Manager subordinate relationship and professional confidence was positively correlated with expectation match with organisation (r=0.20; r=0.23), assignment (r=0.15; r=0.19), role (r=0.14; r=0.17), colleagues (r=0.20; r=0.20) and subordinates (r=0.15; r=0.27). This clearly shows that managers who had positive relationship with their boss and higher professional confidence in self perceived that their expectations had been met from their current organisation, the nature of assignment that they were handling and the role that they were given as well as their colleagues and their subordinates.

Regression analysis carried out to understand impact of various manager behaviours on perception of high or low expectation showed that amount of control that a manager exercises, the frequency of reporting that he expects and amount of interest he takes in subordinates personal life have an impact on perception of manager subordinate relationship. If the manager exercises less control and expects less reporting subordinates perceive that they have greater freedom to perform their tasks. Greater freedom indicates higher trust in the relationship. At the same time the manager is required to improve the quality of his interaction with subordinate by being concerned not just about the 'job at hand' but also his personal life. It is possible that interest in personal life could be more prominent in the Indian context. Work relationships tend to extend to personal and family life as well. Results of regression analysis also show that qualities of current boss such as expressing confidence in subordinate, hard task master and non interfering had an impact on quality of interaction between managers and subordinates. Expression of confidence and non- interference symbolize trust and autonomy. Hard taskmaster would imply being more goal oriented, focusing more on tasks and getting the job done. These are important qualities in a manager that can affect manager subordinate relationship.

Factor Analysis was performed in order to determine which boss behaviours could have an impact on manager subordinate relationship. Similarly factor analysis was also performed on subordinate performance measures. The results are presented in box.

Factor Analysis of Measures of Manager Behaviour

Three factors emerged as the most critical – factor 1 with 18.45% of variance and Eigen value of 4.43, factor 2 with 11.01% of variance and Eigen value of 2.64 and factor 3 with 8.90% of variance and Eigen value of 2.11. Together they accounted for 38.3 % of variance.

Factor 1 of Qualities of Manager Behaviour - 'Critical boss'
Sidelines me
Is more irritable
Is always in hurry to end conversation
Does not involve me in decision making
Is more critical and demanding
Checks up from others about my whereabouts
Expresses doubt about my ability to handle assignments
Ignores suggestions

Relations with such a boss would be filled with suspicion, lack of transparency and low involvement. Although tasks would be achieved however it would have negative impact on employee morale and retention. Such relationships would be characterised by fear rather than respect.

Factor 2 of Qualities of Manager Behaviour - 'Confident boss'
Spends more time
Asks for my opinion
More relaxed behaviour
Gives important assignments
Involves me in decision making

Relations with such a boss would be characterized by openness and high involvement. There would be a blend of relationship as well as task achievement. Relationship would be of mutual respect.

Factor 3 of Qualities of Manager Behaviour – 'Laissez Faire boss'
Less monitoring
Exercises less control
Constant reporting required
Low level of reporting required

Relations with such a boss would be informal. There could be problems of miscommunication and role clarity. Achieving tasks would not be a priority. It could also lead to uncertainty, role ambiguity and conflict

All these behaviours have an impact on manager-subordinate relationship.

Factor Analysis of Subordinate Performance Measures

Four factors emerged as the most critical. Factor 1 with 40.14% of variance and Eigen value of 9.23, factor 2 with 6.36% of variance and Eigen value of 1.45, factor 3 with 5.19% of variance and Eigen value of 1.23 and factor 4 with 4.97% of variance and Eigen value of 1.12. In these factors the following measures of performance were considered important viz.

Factor 1 of Performance Measures - 'Interpersonal Relations'
Efficient
Analytical
Able to work in a team
Cooperative and competitive
Maintain healthy work environment
Positive attitude
Sound job knowledge

These qualities have been considered the most important by managers. Alongwith job expertise the subordinate should also have the right attitude as well as team spirit. Such individuals can be groomed for leadership roles.

Factor 2 of Performance Measures – 'Achievement Orientation'
Maintain cost-benefit analysis
Good PR inside and outside the company
Consistent achiever
High job achievement
Assertive

Subordinates with such qualities are able to get results although they may be driven by individual ambition rather than concern for organisational/team goals. They are the first to take initiative and come up with 'out of the box solutions'.

Factor 3 of Performance Measures - 'Independent worker'
Capable of working independently
Problem solving attitude
Keep boss informed – Give feedback
Reliable service – Dependable

Subordinates with these qualities are able to function independently and are reliable. However interpersonal qualities may be missing. They would prefer to work alone.

Factor 4 of Performance Measures - 'Goal Oriented'
Ability to meet deadlines
Achieve set goals and objectives
Quality output

These qualities enable subordinates to achieve assigned goals and tasks. They are able to perform according to acceptable standards. Mostly prefer operational roles with minimal people interaction.

Conclusion

The present study tried to examine the entire process of expectation formation, communication of expectations and influence on performance in the context of manger subordinate relationship. The study also attempted to examine variables that could have an impact on this process. The results have indicated that Managers and subordinates form expectations about each other. Managers form expectations about their subordinates and attempt to communicate their expectations to them. There is a change from managers initial expectations. Managers revise their expectations based on the performance of their subordinates. Managers treat their subordinates differently based upon their perception of subordinates' performance. Subordinates are able to perceive whether their boss has high or low expectations from them. Perception of high expectations leads to satisfaction with ones current organisation, role, colleagues and subordinates. Individual factors such as leadership style, locus of control, personality type and degree of confidence in self have emerged as important predictors. Organisation culture and expectation matches with current organisation, role, colleagues and subordinates have also emerged as important predictors. Managers having a higher degree of confidence in self also have a higher belief in their expectations influencing subordinate performance. Managers across organisation believe that expectations lead to significant improvement in performance. Positive expectations can improve subordinate performance as well as create a culture of corporate excellence.

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Creativity and Innovation

Ms. Ajita Atre Gupta

I am thankful to my guide and mentor Dr.Guruprasad Murthy for helping and motivating me into this task of contributing an article.

"When a low probability line of thought leads to an effective idea, there is a eureka moment and at once the low probability approach acquires the highest probability"

— Edward de Bono

Creativity

The quality of being creative or the ability to create is called creativity[1] and Innovation means the introduction of something new, a new idea, method or device.[2] Creativity has two parts viz. thinking and translating the thought in to action.

Again, Creativity means "The bringing together of two previously unrelated planes of thought".

A "new" idea is a combination of old elements. Being able to devise new combinations depend on your ability to discern relationships between seemingly disparate items.

Creativity is not about inventing something totally new, it is about making new synergistic connections. You don't have to be a special kind of a person to be creative – everyone can do it. It's not about who you are, it's about what you do. You just need to start looking for multiple solutions rather than settling for just one, and give yourself permission to be playful and inquisitive, flexible and versatile.

The good news is that creativity is a skill and a talent that can be learned and developed through practice. With this skill, you can dramatically accelerate your personal and professional growth. By sharpening your thinking skills and exercising your natural creative powers, you can multiply the value of your efforts and rapidly increase the quantity and quality of your rewards.

Innovation

Innovation is the result of using imagination rather than routine skills. The capacity which each of us has to imagine new and useful solutions to problems. A drive to see things other than they seem.

Rosabeth Kanter defines innovation as:

"The process of bringing a new idea – one that solves problems or addresses opportunities into use."

When an idea is generated, one must innovate it. It must be commercially viable. End users should benefit. There is very little choice because *"if you don't do it or we don't do it, someone else will"*.

Creativity and Innovation are interlinked. Creativity comes first, innovation later. Innovation is part of the creative process. It is implementation of creativity. Creativity and innovation need to be distinguished. At least on four counts creativity and innovation differ namely:- process, risks, starting points, environments required and end results. Innovation is relatively less risky. It is based on already prevailing activity and is an add on.

A creative idea is new - although it only needs to be new to the context in which the idea occurs – and useful. Innovation is the process of realising a new and useful idea. Creative thinking is not a talent, it is skill that can be learnt. It develops people's natural abilities and leads to improved

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1 *Webster's Collegiate 10 th Edition. Merriam Webster p.27*

2 *Webster's Collegiate 10 th Edition. Merriam Webster p. 602*

teamwork, productivity and, where appropriate, profits.

Individuals should be made aware of their creative styles and preferences, and their cognitive skills. They should be motivated to flourish in a stimulating climate. If this happens organisation's ability to innovate increases by leaps and bounds.

Creativity involves risk taking and the risk - return profile may not always match. In fact in a global conference in 1995, the audience were surprised when awards were given for ***'best failure and thoughtful risk taking'***. This is contrary to American business culture where failure is generally punished and risk often discouraged companies which have been risk averters will not find it easy to develop risk taking abilities. The new mantra is "When employees don't make mistakes, they don't learn anything new". Some organisations have a wonderful philosophy that people get fired for not making mistakes. Further the quotation "Silicon Valley is a graveyard. Failure is Silicon Valley's greatest strength", says it all.

Creativity does bring in lot of change and turbulence. However, economic growth stems from corporate turbulence, not stagnation. Volatility is a counterpart to entrepreneurship and innovation.[1]

Corporates and other organisations should make risk taking a part of a regular habit to encourage creativity and stay competitive – in fact ahead of competition.

America's top new production idea man quit his job in Procter and Gamble to start Richard Saunders International in Cleaveland, USA. This Consultant charges Companies like Walt Disney Co., Nike Inc, Pepsi Inc and AT and T corporation, US$150,000 a session to brainstorm new product ideas at company Head Quarters known as "Eureka Mansion".

India

India is rapidly becoming an economic 'rock star'. If China is the World's Factory, India has become the World's Outsourcing Centre.

India's future depends crucially on its ability to compete fully in the "Creative Economy' - not just in technology and software, but across design and entrepreneurship, arts, culture and entertainment, and the knowledge based professions of medicine, finance and law, while its creative assets outstrip those of China and other emerging competitors. India must address several challenges to increase its international competitiveness.

India is well positioned to compete. e.g. Bollywood which makes over 900 films a year, is the World's largest film making centre. India's creative talent has already made its mark on the global entertainment industry and popular culture. The music scenes of London, Toronto, and New York are infused with Bhangra Beats. Elsewhere also India excels. Its video game industry is projected to grow tenfold, to $300 million, by decade-end, and its animation industry from $300 million to almost a billion dollars by 2009. Its graphic design and product design industries are seeing extraordinary growth.

Innovation

According to Azim Premji, India represents an age-old experiment in constant social innovation. The sheer variety of ethnic groups, languages, religions and cultural practices that we have underscores the wide diversity of our heritage as well as the constant pursuit of the new and the better. That India is home to many faiths indicates that as a nation we have the capacity to look inward. That same critical examination needs to be turned to the way, we run our business and economy. Perhaps the need is to start with our education system and see how we can nurture the desire and the drive to come up with new and innovative ideas to influence our lives. As one of the youngest countries in the World, with more than half the country's population still to reach the age of 25, we have succeeded with other global movements like offshoring and outsourcing. All that's needed is for companies to summon the will to promote innovation within and outside their corporate walls.

India already commands a 51% market share (or roughly $17.2 billion) out of the total $300 billion IT and ITES services that are outsourced globally. While India could easily maintain the same rate of growth, if not better, all the other competitor countries (Canada, Ireland, Eastern Europe, Australia etc.) would have to grow at a much faster rate to play, catch up.

1 *The London Economist (5/ 28/ 94)*

Left and Right Hemispheres

Corporates find that encouraging people into adventurous ideas helps promoting and provoking Creativity. Pipe dreams are fine, but an idea is only truly innovative if the right brain produces it and the left brain endorses it! The right brain has attributes that contribute to Creativity, Images, Colour, Emotion, Holism, Comprehension, Intuition, Recognition. The Left Brain has attributes that help in the following: Evaluation, Logic, Reasoning, Rationale, Analysis, Calculation, Realism. Hence a right balance has to be struck between the two so that the product that results from the balance is innovative and acceptable.

Creativity and Innovation distinguished.

Item	Creativity	Innovation
Process	Totally new	Process exists
Risk	Risky	Relatively less risky
Failure Rate	Higher	Lower
Resources	High requirement	Relatively low requirement
Organisational Support	Long term	Short/Medium term
Bail out	Difficult	Easy
Corporate Culture	Sophisticated	Simple

Google, a fastest growing company ever, has recorded 0% attrition in India since 2004. The secret behind this is innovative working environment which lets great minds think indigenously. In fact 20% of the time is reserved for innovative pursuits and there is Google news created by the principal scientists of Google to enable employees to pursue innovation. Thus a scientific temper is maintained in the organisation to enable people at google to be different. Google's objective is to take information to every individual

A good example of creativity and innovation can be drawn from 3M's product called "post it". The creative and imaginative idea of evolving the concept of "post it" is an example of creativity. Making it a commercial proposition was the job of innovation - different sizes, shapes and colours of "post it" is innovation.

People must ask the following questions:

What if, why not, suppose it is done, the other way, imagine, I dream, I wish, I want. The environment must always encourage ideas. It should be nourished. The theme in many Companies (3M for instance) is never kill an idea. Even at home while dealing with children never kill an idea. Remember the adage, "child is the father of man". The hurdles to creativity are our own thinking blocks. The thinking has to be set free from the cage of the routine life. It's often said that we should think "out of the box".The 3M Company is famous for its never ending series of new products which have included Scotch cellophane tape and the famous Post-It Notes.

Innovation affects the life of the people within the Company and outside. A creative proposition incubating in the R&D is internal. Taking it to customers is external.

How to encourage creativity:

1. Ideas are required - weirder or crazier the idea better it is.
2. Ideas have to be shared - Avoid secrecy with respect to ideas.
3. The environment must be relaxed and enjoyable.
4. The mind has to be provoked in order to be creative.

Foster Creativity

Now and in the future, more than at any time in history, the secret to competitive advantage is innovation. Business face many strategic challenges as they approach the twenty – first century, such as increased rates of change, increasing competition (especially global competition), rapidly advancing technology, a more diverse work force, and a change from an industrial to a knowledge based economy.

Different companies have different approaches to innovation.

Examples

Creativity as mentioned above is necessary to produce innovation. The organisation's culture must also foster creativity and then turn it into innovation that leads to competitive success. The following examples explain the behaviour of corporates:

- Rubber Maid has understood this principle for many years and has built an organisational culture that fosters innovation.
- General Electric files more US patents than almost any other US firm year after year.
- Bell Laboratories has consistently produced a large number of successful new products, among them the transistor and fibre optics. The Company is currently developing an 'optical computer' that would revolutionise the computer industry.
- Apple Computer gave us the Apple II, followed by the Apple Macintosh. Now the Company is pursuing a visionary personal computer that will incorporate voice command, permit remote database searches, and include a video telephone. All of these functions will fit in a unit which will assume the size of a notebook.
- Sony is the recognised World leader in consumer electronics introducing some 1,000 products each year; 800 of those products are new versions of old products, but 200 are totally new.
- Hewlett Packard continues to dazzle the industrial world because, despite its size ($24 billion in sales and 96,000 employees), it continues to grow at a staggering pace, launching successful new products at a rate few competitors can match.
- Uncle Chips a product which clicked in the market place advertised on non- prime time TV spots to cut marketing costs. With the same money they could get more advertisements and the same viewer ship at a lower costs. It is normally believed that half of the marketing costs are wasted and as quoted by a leading dealer of Ford Motors - "no one quite knows which half".
- The promotion expenditure is about 3 to 5% of sales and 7 to 10% of cost of production. Different Companies, have adopted different approaches to innovate on marketing cost productivity.
- Due to constant innovation, Chaparral Steel Co. US, founded in 1973, is a global productivity leader in the steel industry in the US. The steel industry is very competitive in the US. Chaparral uses only 1.3 hours of labour to make 1 ton of rolled steel. US, Europe and Japan all have more than 5 hours. The innovative practices include corporate socialism, absence of titles, no time clock, self managed work teams, non-union plant, no lay off policy, transparency in financial information sabbaticals where workers visit different parts of the world, integration of R&D with line management, budget for line managers to carry out experiments. The staff have a high sense of commitment and involvement and participate with a positive attitude to keep Chaparral Steel ahead of others.

Says Gordon E. Forward, President and CEO, Chaparral Steel, *"One of our competencies is the rapid realisation of new technology into products. We are a learning organisation."* -

The above mentioned firms have all shown a remarkable proclivity towards innovation. By contrast, many firms fail to produce new products or improve the processes by which they provide their products or services.

Japanese Approach

Japanese success depends not only on Physical and Cost Productivity. In fact Innovation and Investment in R&D are key factors. The race was won by the Japanese because it made tremendous investments in technology and technological education. Between 1965 to 1980 R&D expenditure tripled in Japan, while it grew only by 33% in the US. As a result Japan emerged as an economic Super Power in seven out of ten, hi-tech industries. In the mid 90's nearly 70% of the world's 20 largest Companies in terms of market values were Japanese

Peter Drucker had said:

"The enterprise that does not innovate inevitably ages and declines. And in a period of rapid change such as the present, an entrepreneurial period, the decline will be fast."

Again he says

"With Knowledge Management, the unmeasurable must be measured. Every organisation – not just business – need one core competence: Innovation. And every organisation needs a way to record and appraise its innovative performance".

"Creativity is thinking up new things. Innovation is doing new things." – Theodore Leavitt

Six Thinking Hats

Another aspect of creativity and innovation is the mindset of people. Every individual has to assume or imagine some role. Such role play can take place through Edward De Bono's concept of 6 thinking hats.

Blue Hat

Managing the thinking process

Providing structure, exploring a subject, staying on track, requiring an outcome, setting time limits.

Black Hat

Caution, difficulties, and problems

White Hat

Information available and needed

Assessing a new situation, making decisions, offsetting unrealistic views, preplanning, settling disagreements negotiating.

Yellow Hat

Benefits and Feasibility

Explaining a new idea, judgment, offsetting negativity, dealing with major changes, checking for blind spots

Red Hat

Intuition and feelings

Reading the group, exploring underlying emotions, taking a note, predicting acceptance

Green Hat

Alternatives and creative ideas

Challenging complacence, seeking improvement, pushing for more ideas, getting unstuck

Games can be, and are, played by giving employees the hats to assume the role. They are then enthused to be as creative as possible.

Dreams

Dreams have been a great source of new ideas which offer innovative solutions to problems being studied when a person is awake. Many scientists, inventors and technologist have literally dreamt up solutions which they could not arrive at "in the waking state"[1]. There are many examples – Kekule's benzene structure, Mendeleev's periodic table, Howe's sewing machine, Neils Bohr's model of the atom and Gandhiji's Dandi march were all ideas that had their genesis in dreams.

The dream process, occasionally synchronises random thoughts into a powerful single thought. Thus some of the visionary powers of intuition and clairvoyance are at their best through dreams. Many companies conduct dream workshops to enable managers to capture ideas and thoughts of the dream process. Companies ensure that the physical and mental health of staff is at its best during working hours so that the night's sleep can produce positive and productive dreams. This can produce innovative solutions which can finally improve the bottom line of the company.

Peter Drucker an eminent management expert talks about the knowledge society. According to Drucker knowledge driven innovation has a rather long gestation period for launch. The conception of

1 *Anil K Rajvanshi, The speaking tree, The Times of India*

knowledge and its application has a long time gap. It is estimated anywhere between 25 to 35 years. The successful launch requires evaluation of social, economic, religious and other personal factors. It is a layman who initiates the launch rather than the scientist. If enterprise has to succeed we require more and more entrepreneurs and innovation. Entrepreneurship and economic development are related. If India has to become a super power, it has to improve its innovation rate and also generate more entrepreneurs in society.

We have to concede that seven out of ten innovations are based on bright ideas. However, these are risky sources of innovation because, only one out of many recover out of pocket costs. That explains the risk involved in innovation.

According to Nobel Laureate Prof. David Gross a Physicist, every innovation helps us to know more of something, however, "the more you know you realise the more you do not know. This ignorance should raise our curiosity and questions like what is, why not, this should lead to further innovation". (TOI, dated 8th February, 2006)

As reported in "Times of India, dated 16th February, 2006" -In the past, Indian companies used to get paid for their sweat. Now they have to get paid for the value they bring to the table.

It is nice to know that Innovation has made an impact on Indian corporates.

Learn to profit from networking and Ideas Sharing

Creativity now lies in identifying sources which can contribute to innovation an imperative for creating and profiting from technology. Corporates are relying more and more on external suppliers of ideas and new ways and means of doing business. External suppliers of creative inputs provide such services on a just-in-time basis. With internalisation of knowledge and shrinking world, suppliers or providers and users can collaborate and co-operate though separated by distance. The bottom line of companies depend on how ideas are given and received and above all actioned.

♦♦♦

Chesbrough says *"If most companies took an inventory they should find that they are using a small fraction of ideas they generate."* Further he says *"Most ideas never get to market, but they really can't be hoarded either"*. Novartis have moved their worldwide R&D centre to Cambridge and Intel had a Lablet in Berkeley. The approach is "accessibility" not "creation". Networking with sources is the buzzword.

Source: Henry Chesbrough, "Open Innovation"

A Study on Innovative Practices

*Dr. VN BRIMS MMS I (2005-06) Students**

Innovation

Innovation is the introduction of new ideas, goods, services and practices which are intended to be useful (though a number of unsuccessful innovations can be found throughout history). The main driver for innovation is often the courage and energy to better the world. An essential element for innovation is its application in a commercially successful way. Innovation has punctuated and challenged human history (consider the development of electricity, steam engines, motor vehicles, etc.)

Innovative Practices Adopted by various Organisations

The following sections take a look at innovative practices adopted by various organisations

Tihar Jail

Challenges Faced

- Method of Behavioural Change required in inmates

Innovative Practices Adopted

- Vipassana
- Detoxification Programmes
- Yoga, Prayer and Meditation programmes
- Legal Advocacy by prisoners who are lawyers
- Tree planting to create a "green zone" inside the prison
- Circulation of a sealed complaint box once a day

Cadbury's India Ltd.

Innovative Practices Adopted :

- Total Quality Management
- Suggestion schemes for employees to contribute their ideas
- Re-induction Programme for employees held within one month of promotion of employees. It is an orientation regarding new job responsibilities.
- Quality Circles including middle level and top level employees.
- Marketing Innovations: It includes Effective Advertising Campaign and taking "Amitabh Bachchan" as the brand ambassador.

Nicholas Piramal Ltd.

Challenges Faced

- Co-ordinate production and material planning across multiple manufacturing facilities
- Accelerate supply chain planning to meet growth and custom manufacturing demands
- Reduce inventory costs, expediting costs, and customer response times

Innovative Practices Adopted

- Use of Factory Planner: It optimizes manufacturing operations by providing feasible plans to meet both customer delivery requirements and the manufacturer's overall business objectives.
- Benefits of Factory Planner

– built detailed database on resource utilization and output for key production systems

– Transitioned to a centralized production and material planning and scheduling environment

– Converted from a monthly to a weekly planning cycle

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* *A study submitted to Dr. VN BRIMS by MMS-I (2005-06) students in partial fulfillment of the course requirements in the paper Organisational Behaviour. Facilitator: Dr. Pooja Lakhanpal*

Controls and Switchgear Pvt. Ltd.

Due to innovative practices by Vice President Mr. Khanna, the company is enjoying position in the first five top leaders in Switch Gear Products.

Challenge Faced

- To sustain in the market due to heavy competition by Schnieder Electricals Pvt. Ltd. which is no. 1 in the switch gear market

Innovative Practices Adopted

- Use of Indian Brand
- Use of Hoardings for Industrial Products
- Innovative change in Product
- Change in Distributions Commission

Bank Of Baroda

Innovative Practices Adopted

- Branding Innovation : Bank's new Logo – double "B" with a rising sun called "The Baroda Sun"
- Human Resource Initiatives
  - – KHOJ
  - – Sampark
  - – Paramarsh – Employee Counseling Centre
  - – Baroda Financial Rewards for Business Leaders
  - – Mep-Tikshna Management programmes for executives in association with top B schools
  - – HR Policy for Overseas Selection and Deployment
  - – Massive Recruitment of Specialist Officers and also graduates from B schools through campus recruitment
  - – A new induction cum grooming programme for young officers
  - – Baroda Leadership Development Centre
- Technology Enabled Business Transformation Project

These initiatives have also helped the bank to venture into different areas – nationally and globally. It has no doubt helped the bank to gain high "Customer Satisfaction". In fact, it has been a matter of "Customer Delight" more than "Customer Satisfaction".

♦♦♦

"Business is a creative activity involving inspired hunches and leaps of faith"
– Ludwig Von Mises, Financial Times

"You shall be known by Quantity, Quality and magnitude of your mistake"
– Anonymus

"Steve Ross had a wonderful philosophy that people get fired for not making mistakes"
– Bob Pitman, CEO, Tames Warner Enterprises, The New Yorker, 10^{th} October 1994

Definitions of Sickness – An Overview

State Bank of India – 1972

"A unit which is chronically irregular and required a study to evolve a nursing programme and close follow-up".

Reserve Bank of India, 1978

"A unit may be considered as sick if it has incurred cash loss for one year and, in the judgement of the Bank, is likely to continue to incur cash losses for a current year as well as the following year and which has an imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt equity ratio".

The Tiwari Committee Report – 1984

I) The industrial undertaking incurs in the immediate preceding accounting year cash loss as disclosed in the audited or the proforma Balance Sheet that is to say, the loss arrived at in the Manufacturing / Profit and Loss Account of such industrial undertaking after making provisions for all expenses, including interest as also accrued interest, but without providing for any depreciation (in accordance with the provisions of the Companies Act – 1956) and transfer to the reserves like development Rebate Reserve, Investment Allowance Reserve, General Reserve etc.

II) The current ratio, that is to say the ratio between current assets and current liabilities as disclosed in the audited or proforma accounts of the immediate preceding accounting year of such industrial undertaking proves adverse according to the prevalent commercial accounting practice.

III) The accumulated losses of such industrial undertaking as at the end of the immediate preceding account year, result in erosion of 50 percent or more of its net worth or any erosion of its paid up capital.

The Sick Industrial Companies (Special Provision) Act, 1985, Sec. 3(1)

"Sick industrial company means an industrial company (being a company registered for not less than seven years) which has at the end of any financial year, accumulated losses equal to or exceeding its net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year".

Reserve Bank of India, 1987

"A sick unit is one which has incurred cash loss in previous accounting year and was likely to continue to incur cash loss in the current accounting year and had an erosion on account of accumulating cash losses to the extent of 50 percent or more of its net worth and/or continuously defaulted in meeting four consecutive quarterly installments of interest or two half yearly instalments of principal on term loans and there were persistent irregularities in operation of its cash credit limits with banks".

Conceptual Definitions

"The National Council on Applied Economic Research (NEAER) has stated that an enterprise is healthy as long as the three basic barometers stated above – liquidity, profitability and solvency are positive. If one of the parameters is negative then the unit should be considered as tending towards sickness. If two of the parameters are negative, the unit should be considered as a case of incipient sickness. If all three parameters are negative, the unit should be definitely considered as sick. Dr. Ratan Sharma, in his article "Industrial Sickness Prevention better than cure" states that sickness should be determined on the basis of internal surplus generated by a unit Cash break-even point, according to him should be the most important criterion for defining sickness."

(Datta, L.N.; "Industrial Sickness : A Challenge to Professional Managers", Gemini Book House, Calcutta,1988, pp. 1-25.) (Fortune India, June 1986)

Another set of signals indicating sickness has been devised by Mr. S.K.Chakraborty. These are financial as well as non financial in nature. These signals are:

1. Primary Sickeness signals: which originate within the unit itself. These signals are rooted in ill conceived project, management deficiencies such as structure, style of operation, values, faulty production systems or equipments;

2. Derived Sickness Signals: which originate from the environment in which the unit operates. These signals are based on factors such as worsening power or labour situation in the entire area where the unit is situated. Surplus capacity in the industry, major consuming units showing declining health due to factors such as import restriction power problem. etc.;

3. Manifest Sickness signals: which are the most visible signals as a result of the units operations. These signals take the form of gross loss, loss before depreciation, loss after depreciation and interest, adverse current ratio etc.;

(Chakraborty, S. K., "New Perspective on Management Accounting", Macmilan Co. of India, New Delhi, pp. 243-245.)

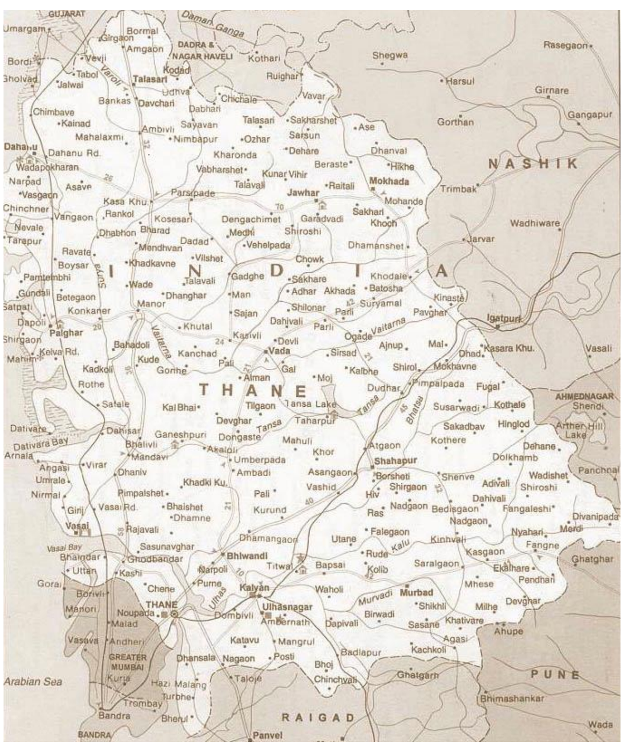
Industrial Sickness in Dombivli, Ambarnath and Badlapur - MIDC areas in Thane District

Dr. G.Y.Shitole and Mrs. Lali Rajan

Introduction

Industrial Sickness is a universal phenomenon. In a competitive market economy, the competition, tests and exposes the strengths and weaknesses of the business enterprises and therefore sickness becomes easily visible.

There has been an increase in industrial sickness, both in the large and small sector, in India. Industrial sickness affects not only the owners, employees and creditors but also causes wastage of national resources and social unrest. It is, therefore, considered very much essential to devise suitable measures for dealing with sick units as well as to make suitable arrangements for detecting symptoms of industrial sickness at an early stage so as to take measures to prevent sickness.



According to the Reserve Bank of India, a sick unit is that which has incurred a cash loss for one year as well as in the following year and the unit has an imbalance in its financial structure, such as current ratio is less than 1:1 and there is a worsening trend in debt equity ratio (total outside liabilities to net worth).

The term-lending institution's definition of a sick industrial unit is as follows:

"Continuous default in meeting four consecutive half-yearly installments of interest or principal in respect of institutional loans; Continuous cash losses for a period of two years or continued erosion in net worth by 50 per cent; Mounting arrears on account of statutory and other liabilities for a period of one/two years."

According to ICICI "a sick industry is one whose financial viability is threatened by adverse factors present and continuing. The adverse factor might relate to management, market fiscal burden, labour relations or any other. When the impact of factors reaches a point where a company begins to incur cash losses leading to erosion of its funds, there is threat to its financial stability".

An analysis of all the definitions given indicates that sickness, more or less, has a perfect positive correlation with profitability. Profitability alone can generate cash surpluses for an industrial unit to meet its various obligations to the creditors like financial institutions, the government and others.

Sickness in a unit needs to be differentiated from sickness afflicting the whole industry. Units revealing the following symptoms may be deemed as sick:

- Inability to meet, over a period of 2/3 years, statutory payments/liabilities, interest payments etc.
- Inability to meet market liabilities;
- Inability to make provisions for depreciation;
- Deterioration in the current ratio and reduction in capacity utilization compared to other units in the industry;

- Irregularity in the working capital accounts due to one or more of the reasons listed above.

The causes of industrial sickness in general can be classified into two categories such as internal causes and external causes. The internal causes arise due to the internal disorders in the four functional systems of an industrial unit that is finance, production, personnel and marketing. However, these disorders are of a controllable nature to a great extent, provided the corporate management is effective. External causes arise due to changes in the general environment or the social, political and international environment and they are beyond the control of the unit.

Some researchers have identified financial institutions own procedures and policies as an important cause of industrial sickness. Others causes are due to mismanagement, lack of finance particularly working capital, shortage of raw materials, poor financial planning, lack of technical and managerial skills, labour problems and high competition.

Industrial sickness is a bane on the entrepreneur, labour, society and the economy in general. Impact of industrial sickness is very grave, it not only directly affects the business unit in terms of loss of production and loss of profit but it eventually leads to the closure of an unit. This in turn will lead to loss of investment, unemployment and idleness of scarce resources. Unemployment will render workers with no income and over purchasing power leading to poverty and even rise in anti-social activities. Slow down of economic activities will lead to social tension affecting the entire economy. All this is unaffordable to a developing economy.

In recent years, India has taken great strides in the areas of economic restructuring and globalisation of the economy realizing the inevitability of the fast emerging global economic scenario. However, the industrial sector in the country is weighed down with the problem of large scale sickness, which is eating up the vitals of industrial economy.

The following table (Table 1) shows the position of industrial sickness in India :

Table 1: Industrial Sickness (Number of Units)

Year	**Sick/Weak units**		
End of :	**Large and Medium**	**Small**	**Total**
Dec 1980	1,401	23,149	24,550
Mar 1990	2,269	2,18,828	2,21,097
Mar 1996	2,374	2,62,376	2,64,750
Mar 1998	2,476	2,21,536	2,24,012
Mar 1999	2,792	3,06,221	3,10,081
Mar 2000	3,164	3,04,235	3,07,399
Mar 2001	3,317	2,49,630	2,52,947
Mar 2002	3,261	1,77,336	1,80,597
Mar 2003	3,396	1,67,980	1,71,376

Source: Statistical Outline of India 2004-05. Tata Services Limited, Department of Economics and Statistics, Mumbai.

The number of sick/weak units has leaped to a large extent during the period 1980 to 1990. There has been a steady increase in the total number of sick/weak units from the year 1990 to 2000. From 2000 onwards the scenario is more or less stable. Large number of units are sick/weak in the small scale sector as compared to the large and medium scale industries. Maximum number of sick/weak units were found in the years 1999 and 2000. This shows that the small scale units which provide employment to millions of people particularly from rural and semi urban areas are worst affected due to industrial sickness.

The incidence of industrial sickness has assumed alarming proportion in India in recent years, particularly after 1990. Along with workers and shareholders, financial institutions and other sectors connected with industrial sector are facing serious consequences of industrial sickness.

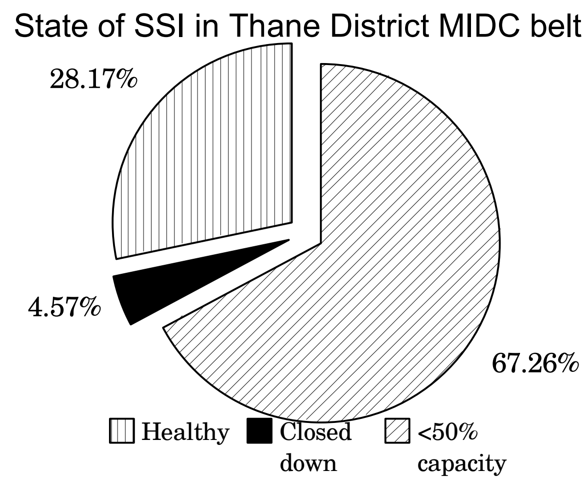
Area of study and the problem

Industrial development in the Dombivli, Ambarnath and Badlapur areas of Thane district in Maharashtra has taken place during the last 50 years. Industries started moving into this area by 1930. Up to 1962, industries grew unit-wise and not in a planned manner, but after 1962-63 big industrial estates were established in these areas. With the creation of MIDC, medium and small scale industries grew rapidly in this area and at present it has reached a saturation point. MIDC could provide infrastructure facilities like roads, water supply and industrial sheds and this acted as an incentive for rapid, industrial growth, particularly in the chemical field

Dombivli, Ambarnath and Badlapur industrial areas are in the heart of an industrial hub. Skilled manpower as well as labour are easily available from these areas and also from Mumbai. The region is well exposed to industry and is therefore productivity oriented. The industrial estates are well connected by telecom facilities within India and outside. Airport and seaport are only 60 to 70 Kms away.

There are approximately 1,700 units established in this area with a capital investment of over 2000 crores and providing employment to nearly 1 lakh workers. The industries in the Ambarnath, Badlapur and Dombivli industrial estates are mainly chemical and engineering besides having food processing, textile dyeing, services and other units.

The state of affairs regarding the health of the industrial units is not satisfactory. A large number of units are either sick or have closed down their operation. As per the information available with MIDC and the trade associations in the areas under study, following number of units are totally closed: Dombivli (100), Ambarnath (72) and Badlapur (66) as on June, 2001. Over and above these numbers, 30% units are working below 50% capacity and just surviving and carrying out some job works to cover day to day expenses. It is estimated that sickness is to the tune of 50-60% of the total number of units. This projects a very contemptible condition of the industrial units in these prestigious MIDC areas.



Research methodology

Extensive field study was conducted wherein a combination of direct approach, comprising of questionnaire aided interviews, discussions and observational techniques was followed. Information on different aspects of the problem of industrial sickness was tapped from both primary and secondary sources. However the primary source did constitute the main source of information. With the help of local trade associations like, KAMA (Kalyan Ambarnath Manufacturers Association), BIWA (Badlapur Industries Welfare Association), the MIDC office, MSEB office and the Banks operating in the industrial area, the researcher was able to identify and contact many of the sick units. Discussion with entrepreneurs of some of the healthy units also provided some insight of the problems faced by them.

Identifying the sick units in these areas was a major task but with the help of the banks, trade associations and the government officials, it was possible to embark on the study. No diagnostic study was undertaken nor any financial ratios were used to find out the health of the industrial units. Contacting and soliciting information proved to be a major hurdle in the entire exercise. All in all it was an enriching and fruitful experience.

This study can be useful not only for the sick units but can be a check/guide for the healthy units to safeguard it against sickness. It could also be important to the financing agencies, government officials, policy makers and the trade associations in checking and preventing sickness in the concerned area of operation.

Analysis of data

Study of sick units in the three MIDC areas of Dombivli, Ambarnath and Badlapur have been undertaken on a micro level. With the help of the responses to the questionnaire, interview and discussions, the main factors/ reason for sickness in these industrial areas could be identified. There are many factors considered responsible for the shocking state of affairs in these sick industrial units. Six major factors/causes were considered for analysis. Responses from 24 sick units in each of the three areas, totaling to 72 units in all were taken up for the study. The sample sick units responses are represented in the following table. The table gives a comparative figure of the major factors responsible for sickness among the sample units in the three areas.

Table 2

Sr. no.	Factors/Causes of sickness	Dombivli Total no.24	Ambarnath Total no.24	Badlapur Total no.24
1	High prices of raw materials	20 (83.3)	18 (75.0)	18 (75.0)
2	Power cuts/Shortage of Power	20 (83.3)	20 (83.3)	20 (83.3)
3	Market recession/Lack of demand	18 (75.0)	18 (75.0)	19 (79.2)
4	High competition	19 (79.2)	19 (79.2)	19 (79.2)
5	Lack of working capital	21 (87.5)	21 (87.5)	21 (87.5)
6	Demand of high wages/ Labour problem	17 (70.8)	16 (66.7)	15 (62.5)

Table 2: Comparative table showing the major factors causing sickness among the sample sick units in Dombivli, Ambarnath and Badlapur MIDC areas

Note :
1. Figures in brackets indicate percentage
2. The above table represents the ranking of the six major causes of sickness in the area under study.
3. All the sample units in the three areas have ranked lack of working capital as the major factor leading to sickness followed by power cuts.

The above table shows some interesting facts regarding the cause of sickness in all the three areas. There is a lot of similarity in the cause of sickness. All the six causes of sickness are dominant in these areas. Lack of working capital and power cuts/shortage of power have been identified as the two major causes of sickness. The next major cause of sickness are competition and high price of raw materials followed by market recession and demand of high wages.

Table 3 highlights the ranking order of these six major factors responsible for industrial sickness among the sample units in the three MIDC areas. A glance at the table reveals the most prominent factor responsible for industrial sickness.

"Lack of professionalism and competitiveness is seen among the entrepreneurs, the State authorities and the private associations" say the authors

Table 3

Sr. no.	Causes of sickness	Dombivli	Ambarnath	Badlapur
1	High prices of raw materials	2	4	4
2	Power cuts/Shortage of Power	2	2	2
3	Market recession/Lack of demand	4	4	3
4	High competition	3	3	3
5	Lack of working capital	1	1	1
6	Demand of high wages/ Labour problems	5	5	5

Table 3: Ranking of the major factors causing sickness among the sample sick units in Dombivli, Ambarnath and Badlapur MIDC areas

Conclusion

The proximity of Dombivli, Ambarnath and Badlapur MIDC industrial areas to Mumbai, the commercial capital of the country, has not helped in checking the sickness nor closure of business units. Yet, it is not the sickness that causes worry, but it is the magnitude of sickness. The following points can be drawn from the study :

1) Dombivli, Ambarnath and Badlapur industrial areas are in the heart of an industrial hub. Skilled manpower as well as labour are easily available from these three areas and also from Mumbai, the commercial capital of the country. The region is well exposed to industry and is therefore productivity oriented.

2) MIDC has provided the basic infrastructure needed for the industrial units like, sheds, electricity, water, roads, street lights, post office and canteen. Common Effluent Treatment Plant (C.E.P.T.) are also functioning in the industrial areas.

3) These areas are well connected by rail and road to Mumbai, Pune, Nashik and other parts of the country. Airport and sea port are also 60-70 kilometres away.

4) A number of public sector, private and co-operative banks are operating in the MIDC areas and the nearby town, providing financial help to the industrial units. The trade associations, namely KAMA, BIWA and Ambarnath Manufacturer's Association are functioning as welfare associations in these MIDC areas are doing a good job in bringing the entrepreneurs together and providing valuable guidance wherever required.

5) Industrial sickness is widespread in all the three MIDC areas of Dombivli, Ambarnath and Badlapur. A large number of units have closed down and a few are surviving just taking job orders, sickness found to be around 50-60%.

6) Sickness is very rampant in the Chemical, Pharmaceutical, Textile and Engineering industrial units. The statistics show a very pathetic state of the industrial areas under study.

7) Lack of professionalism and competitiveness is seen among the entrepreneurs, the State authorities and the private associations.

Findings and Observations

The findings of the study of the three MIDC areas of Dombivli, Ambarnath and Badlpaur are as under:

1. The three industrial areas under study, namely, Dombivli, Ambarnath and Badlapur all fall under Group A, Mumbai Metropolitan Region (MMR), the developed area as per MIDC classification. Such wide spread sickness in these areas is really alarming and need to be viewed cautiously.

2. There are approximately 100 closed industrial units in Dombivli, 72 units in Ambarnath and 66 in Badlapur MIDC area. The water supply to these units have been cut and the water bills are pending.
3. Many factors have been identified as the major cause of sickness in these three area under study. Of them six major factors which are responsible for sickness of the sample units are analysed for the study. There is no significant difference in the three areas as far as the factor causing sickness is considered.
4. The first major factor causing industrial sickness in the sample sick units in all the three areas of study is lack of working capital. It has been ranked as the single largest contributor for sickness. Working capital which is so very essential for the smooth working of industrial units is a problem for these industrial units. It turns a healthy unit into a weak unit and this weak unit in turn becomes sick and ultimately closes down.
5. The second major cause of sickness is due to frequent power cuts/shortage of power. Power crisis has been a major cause of concern for all the units in these industrial areas. Erratic power cuts in the industrial estate affects the efficient working of the units, causing delays in delivery of goods and adding to the cost of production. Another main problem pointed out by the sick units is the competition faced mainly by the small entrepreneurs from large scale industries and also from dumping of goods from foreign countries.
6. The other factors that have contributed to sickness of the industrial units are, market recession, high price of raw materials, poor efforts of sales promotion, low margin of profit on sales, mismanagement of funds, demand of high wages/labour problem, burden of interest, breakdown of plant and machinery and changes in the government policy.
7. A few entrepreneurs of sick units have changed their line of operation from chemical, pharmaceutical and textile to Fast Moving Consumer Goods (FMCG) items like cosmetics and toiletries.
8. Bank managers have mentioned that some of the entrepreneurs are willful defaulters who do not make payments in time and would avail government subsidy and other benefits.
9. Few entrepreneurs who started their business operations in these industrial estates have left their units sick and are running successful units in other industrial areas of Maharashtra and Gujarat to avail various benefits offered by those industrial estates.
10. Some sick units are sick because of the attitude of the second generation owners who are not interested in running the units set up by their parents, they have diversified into other professions.
11. Delayed receivables is also attributed as a problem, where the money comes in after a period of 30-45 days, thus leading to scarcity of working capital especially a problem for small scale units.
12. It was observed that the entrepreneurs resort to diversion of funds for other things than for which the loan has been sanctioned, mismanagement of funds for personal use or some unnecessary expenditure on heavy furnishing of office premises.
13. Banks can play a pro active role in guiding the entrepreneurs in managing their finances and conduct feasibility study in the right spirit.
14. The trade associations functioning in these three areas can act as support system for the entrepreneurs by providing counselling and guidance, training and development programmes for their members.

The above mentioned findings and observations can be taken up as recommendations for arresting sickness among the sample units and in these industrial areas. The problem is grave and needs to be urgently tackled by appropriate authorities. Hectares of land, plant and machinery, labour all lying idle in a poor developing country ! We, the government, the industrialist, the policy makers, educationist and the society in general need to wake up and find a solution for arresting this frightening trend.

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Non-Performing Assets

*Dr. VN BRIMS PGDBM IInd year (2005-06) Students**

What is meant by Non Performing Assets?

Banks usually classify as non-performing assets a loan or lease that is not meeting its stated principal and interest payments, any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. More generally, an asset which is not producing income.

Non-Performing Assets (NPAs) could wreck a bank's profitability both through a loss of interest income and write-off the principle loan amount.

Soundness Indicators

Capital adequacy and asset quality are two crucial parameters which reflect the soundness of a financial institution. In the Indian context, both these parameters have shown a significant improvement over the years. While the level of NPAs, both in gross and net terms, has declined, the capital adequacy ratio has improved steadily. Reflecting the combined impact of increase in the capital position and improvement in asset quality, net NPAs to capital ratio, which is a worst-case scenario measure, declined steadily from a high level of 71.3% at end-March 1999 to 22.8% at end-March 2004 and further to 15.5 per cent by end-March 2005.

Asset Quality

The sharp rise in credit growth was underpinned by a steady improvement in asset quality. Following the trend of the previous year, reductions in NPAs for SCBs (Scheduled Commercial Banks) outpaced additions to NPAs during 2004-05. This trend was observed across all bank groups, barring new private sector banks. Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6,485 crore between end-March 2004 and end-March 2005.

Movements in Non-performing Assets – Bank Group-wise

(Amount in Rs. Crore)

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationalized Banks (19)	State Bank Groups (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
1	2	3	4	5	6	7	8	9	10
Gross NPAs									
At the end-March 2004*	63,096	64,439	35,549	15,989	51,538	52,880	4,393	4,517	2,649
Additional	20,210	20,396	10,221	5,603	15,824	16,011	1,154	2,199	1,032
Recovered	23,488	23,801	13,247	5,833	19,080	19,394	1,270	2,004	1,134
Written-off	1,519	1,519	814	143	956	956	71	136	356
As on 31st March 2005	58,300	59,516	31,709	15,616	47,325	48,541	4,206	4,576	2,192

* *Compiled by Prasad Pathak, Kunal Shah, Sachetan Dalvi and Akshay Malkar*

Particulars	Scheduled Commercial Banks (87)	Scheduled Commercial Banks (88)#	Nationalized Banks (19)	State Bank Groups (8)	Public Sector Banks (27)	Public Sector Banks (28)#	Old Private Sector Banks (20)	New Private Sector Banks (9)	Foreign Banks (31)
Net NPAs									
At the end-March 2004*	24,615	24,615	12,893	5,967	18,859	18,859	2,140	2,717	898
At the end-March 2005	21,441	22,289	10,280	6,363	16,642	17,490	1,859	2,292	648
Memo									
Gross Advances	11,10,986	11,52,682	5,42,768	2,93,360	8,36,128	8,77,825	70,412	1,27,420	77,026
Net Advances	10,74,044	11,15,663	5,23,253	2,84,040	8,07,293	8,48,912	67,742	1,23,655	75,354
Ratio									
Gross NPAs/Gross Advances	5.2	5.2	5.8	5.3	5.7	5.5	6.0	3.6	2.8
Net NPAs/Net Advances	2.0	2.0	2.0	2.2	2.1	2.1	2.7	1.9	0.9

: Including the impact of conversion of a non-banking entity into a banking entity.
* : Data do not include NPAs of banks which were closed during the year.
Note : Figures in brackets indicates the number of banks in that group for the year 2004-05.
Sources : 1. Balance sheets of respective banks. 2. Returns submitted by banks.

Sector-wise NPAs

NPAs of public and private sector banks are classified in three broad sectors, viz., priority sector, public sector and non-priority sector. The share of NPAs in the priority sector to total NPAs of public sector banks increased marginally to 48.9 per cent at end-March 2005 from 47.5 per cent at end-March 2004. However, the share of NPAs of small scale industries in respect of PSBs (Public Sector Banks) declined. While the share of NPAs of non-priority sector increased during 2004-05, the share of NPAs of public sector undertakings declined.

Sector-wise NPAs – Bank Group-wise (As at end-March)

(Amount in Rs. Crore)

Country	Public Sector Banks		Old Private Sector Banks		New Private Sector Banks		All SCBs*	
	2004	2005	2004	2005	2004	2005	2004	2005
1	2	3	4	5	6	7	8	9
A. Private Sector	23,840	23,397	1,802	1,782	681	407	26,323	25,586
i) Agriculture	7,240	7,254	288	304	171	161	7,699	7,719
ii) Small Scale Industries	8,838	7,835	859	792	404	172	10,101	8,799
Iii) Others	7,762	8,308	655	686	106	73	8,523	9,067
B. Public Sector	610	450	8	8	66	34	684	493
C. Non-Priority Sector	25,698	23,849	2,591	2,444	5,205	4,125	33,494	30,417
Total (A+B+C)	**50,148**	**47,696**	**4,401**	**4,234**	**5,952**	**4,566**	**60,501**	**56,496**

* : Excluding Foreign Banks.

Source: Based on off-site returns submitted by banks.

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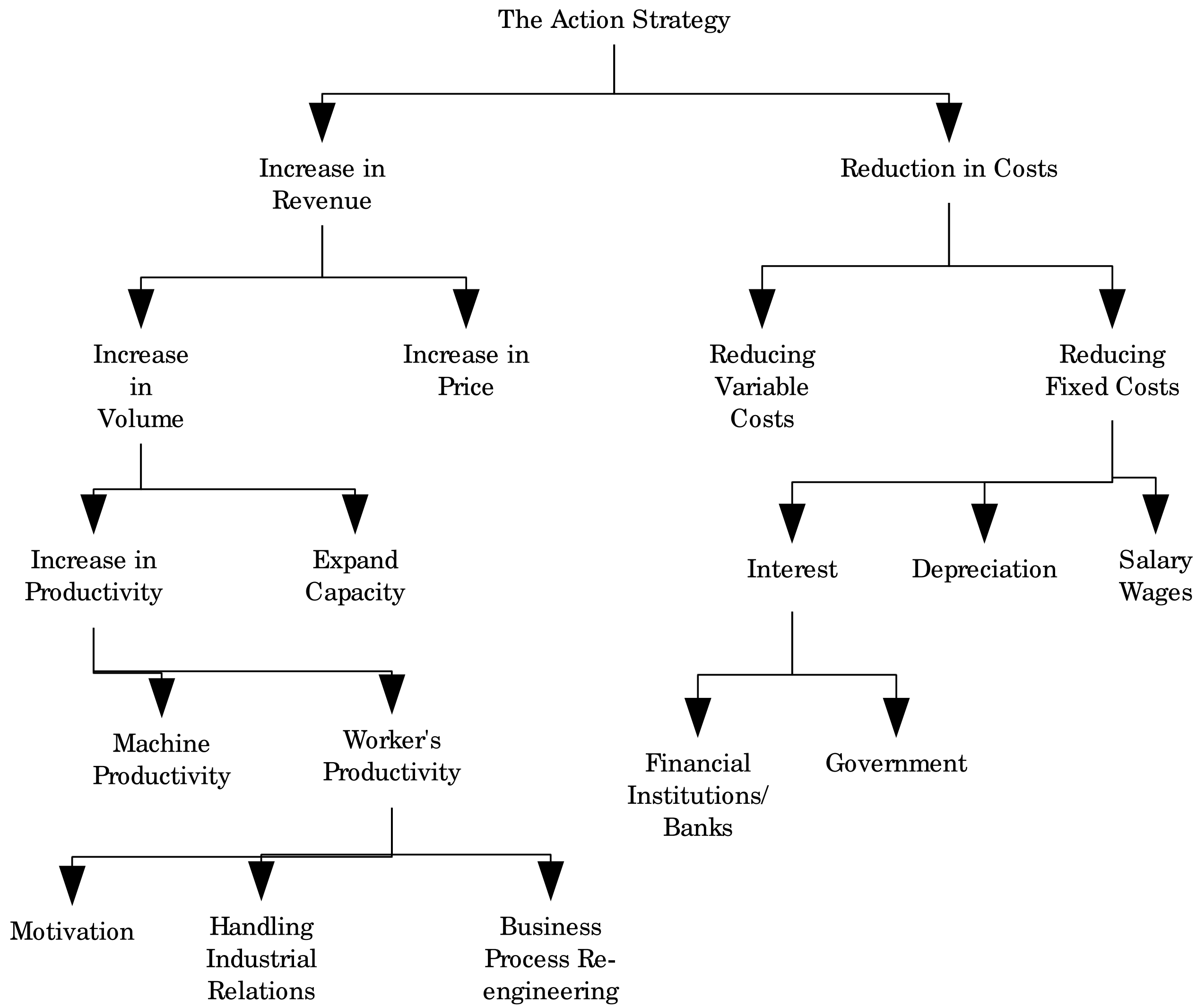
From Loss to Profit



The above chart captures the miraculous turnaround of Scooters India Ltd.

Source: Vikalpa, Oct-Dec 2001, pp. 94

Turnaround Management

Deepa Thacker and Nisha Uchat

"A substantial and sustained positive change in the performance of a business"

Inevitable compelling reasons

Unprecedented Cumulative loss of over Rs. 537 crores by 2002:
Rs. 500 crores in 2001 and Rs.37 crores in 2002

Case of Tata Motors Ltd.

Reasons the company went for a full-fledged financial turnaround strategy package:

Big losses

Then three things happened that changed the fortunes of the company:

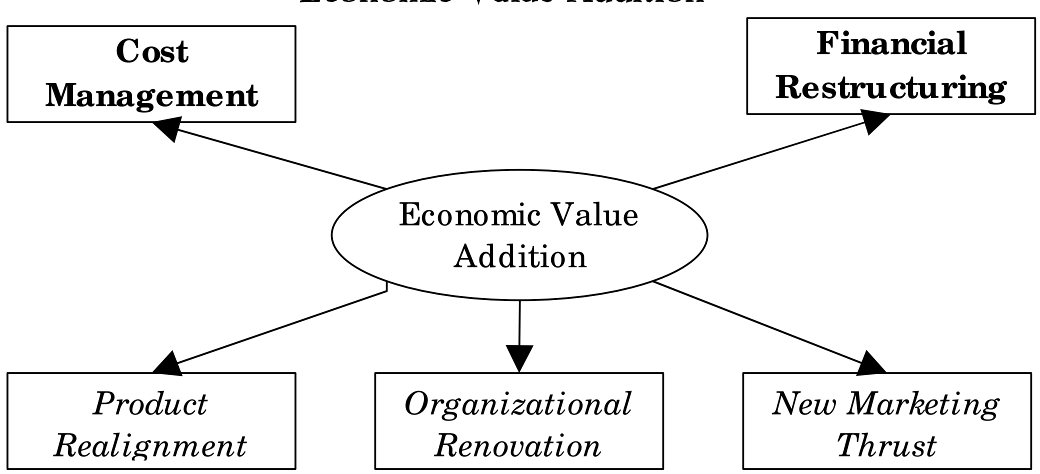
- The truck business shrunk by 50 per cent,
  - – Operating margins sank from 16 per cent to about 8 per cent and
  - – Operating margins hit an all-time low of 6 per cent in 2001.
  - – Sluggish revenues with stagnant economy.
  - – Cyclicality of business.
- **Future Concerns:**
  - – Drop in market share.
  - – Fall in Operating Profit
  - – Large Balance Sheet size.
  - – High product development expenditure.

This was mainly because Telco had sunk huge amounts for expanding its passenger car division. Add to this the burden of depreciation and product amortisation costs, which totalled to Rs 900 crore.

a) In 2001, TELCO was certainly down, with the biggest ever losses in Indian history; but it was not out. And the reason that it was not out is a path towards change, which companies can only dream to follow.

b) The company was able to use, fundamental financial actions, in accordance with the situation and was able to blend it with the operational strategy, which was effective throughout the organization.

Economic Value Addition



Where **BOLD** variables are core factors and *Italics* variables are supplementary factors.

c) To introduce drastic changes, which have organization wide impacts, in a year of record losses and still manage to implement it successfully, leading to a phenomenal turnaround, can be only termed –Innovative.

In this background, the top brass of the company have now chalked out a blue print attacking various areas that need focus of attention. Indeed, there is a clear five-pronged turnaround strategy that has been put in place that will look at taking Telco out of the woods.

In order to reduce the vulnerability of the company to the operational factors like drop in volumes, the company proposes to go for a major cost reduction drive so that the breakeven point is achieved at a much lower rate. To this effect the company has set a very aggressive cost reduction target covering three main areas: direct material cost, conversion cost and fixed cost. A cut down in the conversion cost will entail productivity improvement as well as waste reduction whereas a slash in the fixed cost will include mainly manpower cost reduction and financial cost reduction in terms of reducing the cost of capital borrowed.

It is also attempting to make long term impact through manufacturing and management initiatives. For example, in order to improve quality, Telco had adopted the Six Sigma quality enhancement standards aiming at improving the reliability, durability and quality of the product. Further, it has embarked on implementing kaizen initiatives across the company which also aims at cost-effectiveness.

Action- Receivables Management

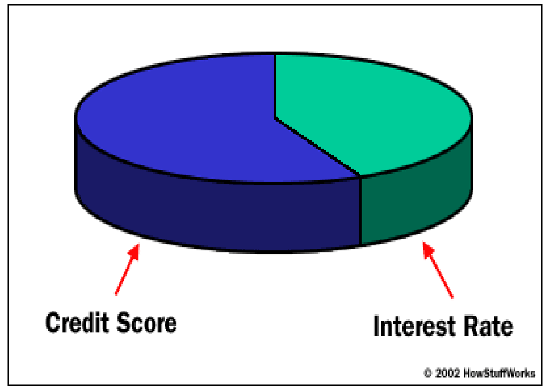
The basic objective of receivables management is to achieve a balance which results in the combination of sales and profit rates that maximizes return on investment in this asset.

Telco's Credit and Collection Policy:

For many Telco's, making sure that the revenue is accounted for is the end of the responsibilities for Revenue Assurance. For others the Credit and Collection are a critical part of the process. It is in the Credit and Collections area that many of the revenue recognition problems can be averted. The credit and collection policies are designed to meet overall corporate objectives by establishing the operating standards to guide actual performance.

Collections

After invoices are sent, they refer to all operations having to do with the collection and tracking of payments from customers that are on time and the



making of adjustments to bills and accounts that occur within the time frame within which payment is due as "collections activity."

In most organizations the entire process of credit risk management is coupled with that of collections. Making sure that the proper credit policies are in place, tracking how effectively the credit policies are working and adjusting them as required.

For all of those cases where the customer does not pay on time, and the handling of subsequent collections and adjustment activity, they refer to Dunning.

The core processes that drive the Collections process include:

Collections Tracking

Simply stated, collections tracking are the process of making sure that all invoices that go out are collected and that those that are not collected are forwarded to Dunning for late collection.

Collections Accounting

This is the process of making sure that all collected funds are applied to the appropriate accounts in the general ledger and that all accounting reporting about these revenues is conducted.

Billing Adjustments Management

This is the process of setting the policies and assuring that the billing adjustments processes are conducted corrected. In general, customers will call the call centre to request billing and account adjustments, and then someone (either a call centre representative or a collections group analyst) will hear the case, make a decision and then apply the credit.

Invoicing Error Investigation and Resolution

A subset of the entire billing adjustment process is the invoicing error handling process. In those cases where a pattern of invoicing errors are detected, it will be the job of the collections team to spot the error and then follow through on the investigation necessary to resolve it as soon as possible.

Credit Management

The process of assessing the credit risk that different types of customers represent, creating policies and procedures that reflect the appropriate handling of those risks (deposits, different rate plans, prepaid v/s postpaid or refusal of service), monitoring the execution of those policies, measuring the effectiveness of the policies and adjusting those policies based upon feedback received

Dunning

For purposes of Telco revenue assurance Dunning is used which refer to all of those processes having to do with the activities associated with collecting funds from customers who have not paid on or near the invoice due date. Another name for Dunning would be "Collection of Overdue Receivables" or "Late Payment Management."

Included in Dunning are:

- Accounts Receivable Aging

- Post Invoice Period Account Adjustments

Processes

The core processes that drive the Dunning process include:

Collections Aging Tracking

This is the process of keeping track of the customer invoices that have not been paid within the specified payment period. Collections ageing deals with "age buckets" of invoices (i.e. invoices that are 0-30 days overdue, 30-60 days overdue etc.).

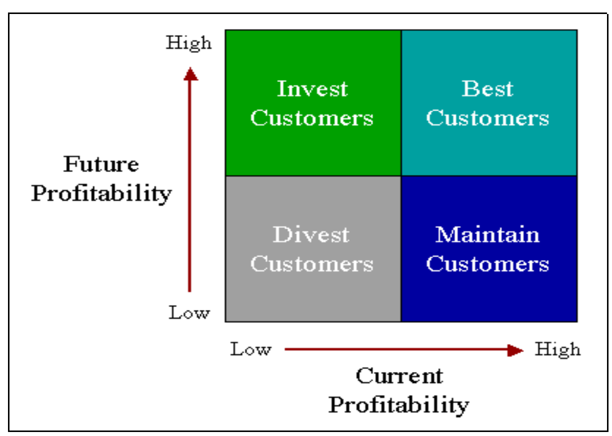
Dunning Treatment Queue Management

Dunning itself is the process of investing the efforts of the company (investing time, systems, phone calls, letters etc.) in trying to get customers to pay the money that they owe. Managing Dunning activities can be handled in simple straightforward manner (one company has a policy that whenever a customer is 10 days overdue, you call them once a day until they pay), or in a more sophisticated way (another company has a sophisticated scoring and management mechanism that ranks the credit risk each overdue account represents and chooses different treatments for different customers based upon the probability that they will pay).

Management of the queues includes the determination of the "write off" point, and the application of accounting for write-offs to the general ledger

Post invoice period adjustments

The problems with tracking account adjustments that occur with accounts that are overdue are basically the same process of keeping track of account adjustments during the collections phase. The only difference is that these adjustments might tend to be larger, and could involve larger sums of money and have more consequences for overall profitability.



Dunning accounting

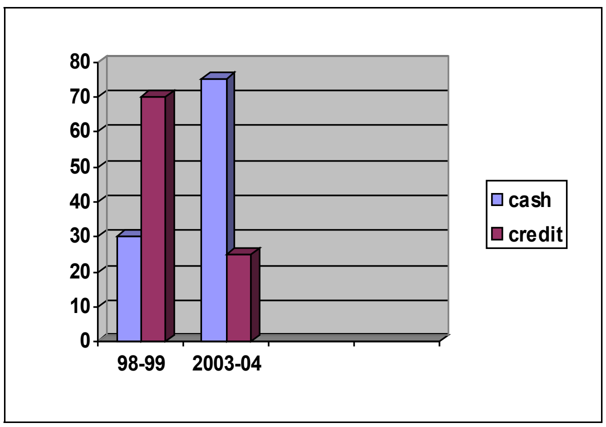
Application of late funds collected to the general ledger and other accounting reports.

Due to above practices of Tata Motors, it has been able to reduce its debtors and make net working capital negative. The following table will show how Debtors Turnover Ratio is improving and outstanding debtors are reducing though gradually but consistently over a period of time.

Particulars	**2000**	**2001**	**2002**	**2003**	**2004**
Debtors (Rs. in Crores)	865	758	785	946	***615***
Sales (Rs. in Crores)	8692	8164	8918	10855	***15552***
Debtors/Sales	10	9	8.8	8.7	***4***
Debtors Turnover Ratio	7.19	9.77	11.24	12.23	***19.43***
Debtors outstanding (days)	35	33	32	31	***14***

Effects

Today the cash-to-credit ratio is 3:1, while it was the other way around in the past.



From a negative cash flow in 2001, the company is generating more cash from operations. Tata Engineering's gross interest reduced from Rs 557 crore in 2000 to Rs 248 crore in 2003. The ratio of raw material to net sales came down from 67.5 per cent to 61.3 per cent during the same period. Manpower size was optimized to 22,414 from a high of 40,000 in March 1996.

The revenue model was de-risked through reducing dependence on the cyclical commercial vehicle business and increasing revenue from non-cyclical streams to a significant 13 per cent.

The people at Tata Engineering do not fancy the phrase 'cost cutting', for no other reason than that they see it as inadequate, even misleading in their context. **'Cost erosion'** is the preferred terminology at India's largest automotive company, simply because it better captures the breakthrough exercise that has shaved more than Rs 600 crore off Tata Engineering's expenses over the last two years. What's cut can grow back; what's eroded is gone forever. The cost-erosion initiative, which began in April 2000, is arguably the most important element in a remarkable revival that has seen Tata Engineering recover from a loss of Rs 500 crore in the year ended March 2001 to a profit of Rs 28 crore in the first quarter of 2002-03.

Four specific areas were identified:

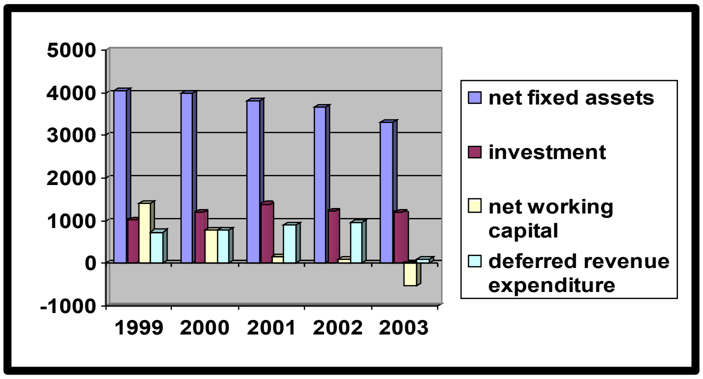
(i) **Direct material costs** (which constitute roughly 65 per cent of all costs);

(ii) **Variable conversion costs** (power, fuel, water, tools, etc);

(iii) **Fixed costs** (labour, marketing, corporate expenses, plant operations, research and development);

(iv) **Financial restructuring** (working capital, debt restructuring, balance sheet, etc.).

Three-tiered teams — members, leaders and champions — were set up at the plant level to implement, drive and monitor the exercise across the organization. Their task began with spreading the cost-reduction message, emphasizing its importance to bringing the company back to good health, and defining the methods to accomplish it. The company's union was co-opted to communicate the programme and the house journal did the same.



REDUCTION OF Rs. 3045 CRORES OVER 4 YEARS

What this means is that Telco offering starts with

(a) Detailed study of the client's manufacturing process;

(b) Analysis of all production costs;

(c) Selection and recommendation of machines and equipment;

(d) Supply of tools like dies, fixtures, production aids, and special purpose machines;

(e) Erection and commission of all the equipment, including large automated production lines;

(f) Retrofitting existing equipment and machines with new tooling;

(g) Reconditioning and refurbishing; and

(h) Provision of services on a long term basis.

The initiatives for financial restructuring can be clubbed mainly under keeping borrowings under control, making strategic disinvestments and improvement in the risk profile, under which it proposes to reduce the cost of funds by retiring high cost debt, reducing the working capital days and putting efficient credit control systems. The company achieved cost reduction of Rs 300 crore last year which it expects to continue this fiscal also.

Action

- Tighter Working Capital Management
- Disciplined Capex Programme
- Sale Of Non-Core Investment And Assets (Including Subsidiary Hive-Offs)

Effects

Innovators In Writing-Off Expenses Against Securities Premium Account

- Telco is probably the **first company** to write off **unamortized product development costs and VRS costs** of Rs 1,179 crores against its Securities Premium Account.
- Write-offs are not uncommon, but one of these magnitudes does stand out. Telco's example has now been followed by others like MandM and Essar. Telco's restructuring is not just about write-offs.
- It was time for hard decisions, and Telco took a whole lot of them. Over the last four years the company has reduced 13,500 employees across work levels. This has made the management much leaner.

Getting Rid Of Non-Core Businesses

- To shore up its balance sheet, the company sold non-core businesses, accounting for another Rs 250 crore. It raised Rs 672 crore through a combination of debt and equity instruments in the first tranche.
- This helped the company to reduce borrowings to Rs 2,308 crore in March 2002, down Rs 691 crore in the last one year and reduction of Rs 1138 crore over the last 3 years. Also, the expensive debt was either prepaid or restructured to the tune of Rs 372 crore.

Total reduction of costs in 2002 account for Rs 332 crore, while purchases through its e-procurement system will enable a saving of 10-15 per cent.

- **Tata Engineering had secured AAA for PTC's for last 4 years with modest collate.**
- **Tata Engineering Undertakes about Rs. 500 crores securitisations every year. the current outstanding for securitized portfolio would br app. Rs. 540 crores.**

Telco has started efforts towards right-sizing by bringing down manpower by 11,500 over the last three years. The company will be concentrating both on asset and business restructuring besides cost cutting. While, marketing activity will be pepped up in the commercial vehicle line of business, non-vehicular businesses like reconditioning, providing transport solution and spares will be focused upon to reduce the cyclicality of the business.

- Organizational transformation was achieved through right-sizing it, changing mind-set, becoming process driven through the TBEM, Six Sigma, NPI, Kaizen and strong leadership at company level
- The VCM solution was launched in the company. Telco benefited through cost savings in communication, online access to information, better work flow and transparency within the organization.

This solution provided a cost-effective and efficient way to help end-to-end flow of information among the various suppliers of TELCO. The system has a daily hit of around 2000 subscribers from all over India. The volume of the transactions can be estimated from the fact that daily about 500 Transporter Vehicles bring in the raw materials which translates into around 1000 Delivery Orders.

Key Benefits of the System

- Effective Inventory Control
- Fewer Stockouts
- Transactions Costs lowered dramatically
- Savings on Administration Costs Phone/Fax/Mails/Personal Visits
- Increase in operating efficiency
- Increases supplier competitiveness by providing online supplier ratings
- Increased Supplier Satisfaction.

The company plans to achieve increase the volume by targeting both new product development and aggressive marketing. They will place more emphasis on new product development as it is expected to make a major difference to ward off competition.

In the commercial vehicle segment, the company had already adopted the strategy of new product development by launching two new variants. In the current fiscal, the company has already lined up a whole range of products to roll out in the market in the next five months. This will be across all product segments ranging from two tonne to 40 tonne trucks.

Among the new launches is an LCV called `LPK 2516 6x4 tipper' in two sizes with a sandwich floor option. MORE PTI SJB VIN 01141806 D In the MCV category, Telco launched `LPTA 1516 4x4' and `LPT 1613 TC'. The former is a four-wheel drive specifically designed for defence applications whereas the latter is Telco's response to address the prevailing anomalies where the truck body does not confirm to any engineering or safety standards.

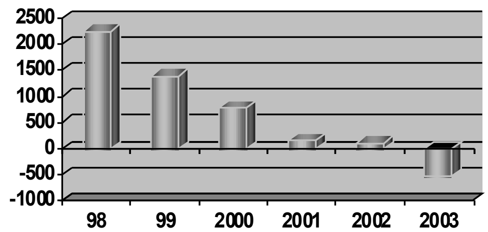
The three launches in the LCV segment are SFC 909 Turbo High Deck, the news TATA 207DI Single Cab pick Up and the new Tata 207DI Crew Cab Pick Up.

Also, the company announced the launch of the low floor integral rear engine coach (bus) with a 160 horse power Euro II Cummins engine.

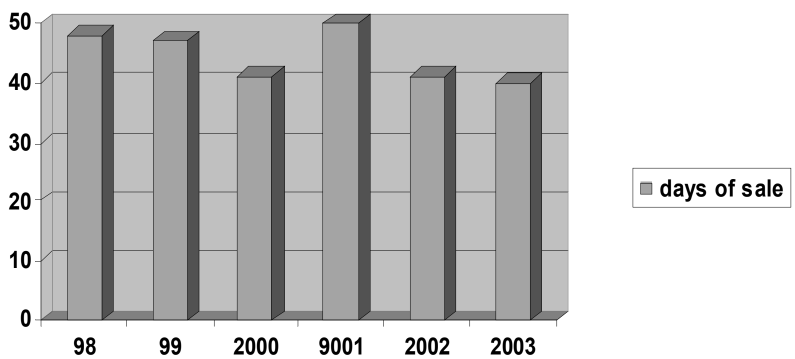
It is restructuring its marketing structure. The company now plans to build a quadrangular network involving customers, dealers, financiers and manufacturers at the same time. As against the earlier arrangement of depending only on the dealer network for marketing of products, the company under the new arrangement plans to come closer to direct customers while taking both the dealers and financiers into relationship as allies for marketing. In the passenger car and utility vehicle segment, the company plans to tap new markets like semi urban and rural market. There is the additional new thrust on the institutional sales. Newer versions of Sumo are also planned this year.

Results Achieved

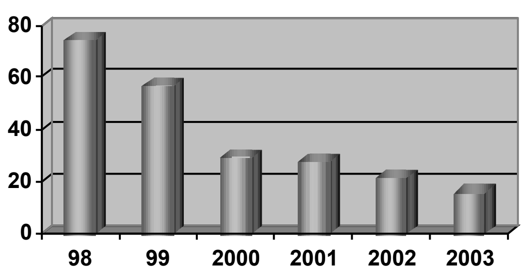
- **Net Working Capital (in crores)**



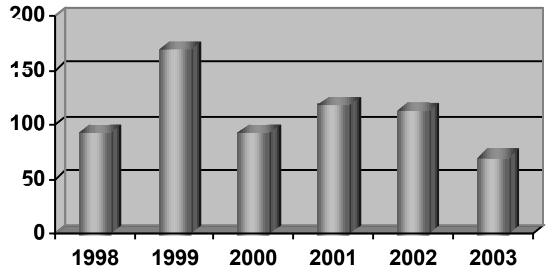
- **Inventory turnover period (in days)**



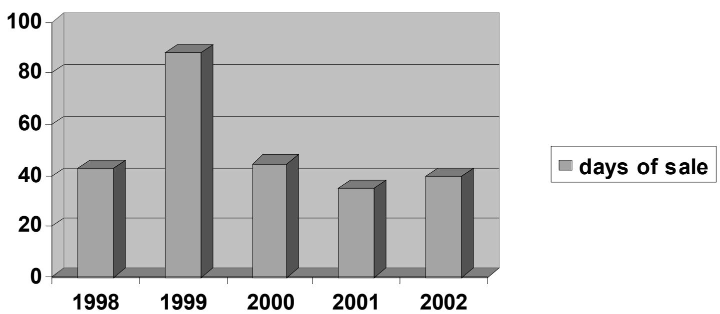
- **Receivables (in days)**



- **Creditors (in days)**



- **Loans and Advances (in days)**



Attributes	2003-04	2001-02	It's nature
Sales (crs)	13028.17	7320.76	Favourable
Profit after Tax (crs)	820.18	-100.14	Favourable
Debt/Equity ratio	0.35	0.94	Favourable

Conclusion

Economic times headline on Telco posting record losses, "Can TELCO do a TISCO (turnaround)?"

2 years later on Telco reporting close to Rs. 500 crores PBT, " TELCO DOES A BIGGER TISCO".

The rest, as people say…. is history; but as we see it…. just a beginning of innovation.

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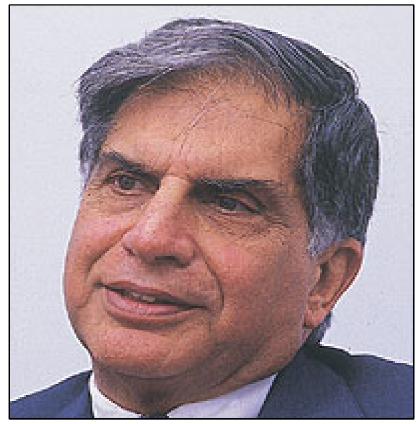
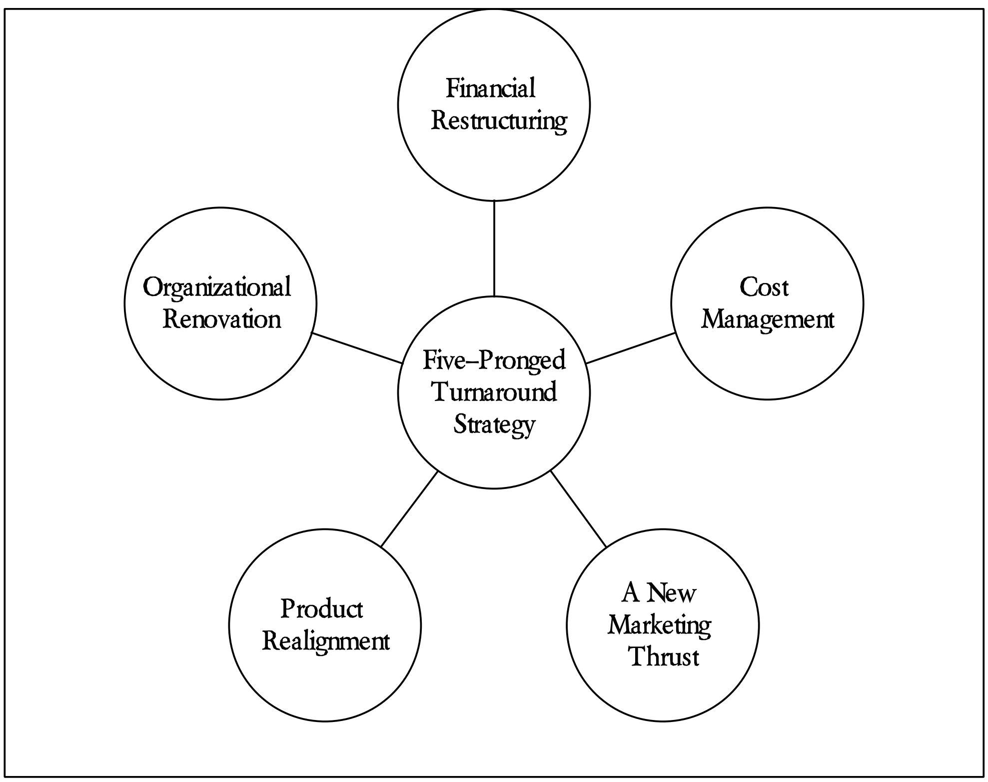


Tata Motors - Turnaround Strategy

Corporate turnarounds are also often described as Back to Fundamentals and Back to Entrepreneurship

3 R's of Turnaround Strategy
- Repositioning
- Restructuring
- Re-engineering



Income Statement

Period to (INR in Mn)	FY01	FY02	FY03	FY04
Net Sales	66,141	72,474	88,639	129,384
Operating Expenses	(63,741)	(67,612)	(79,575)	(113,414)
Operating Profit	2,399	4,862	9,064,	15,970
Other Income	3,133	2,917	2,919	3,891
PBIDT	5,532	7,779	11,984	19,861
Interest	(4,989)	(3,954)	(3,199)	(2,067)
Depreciation	(3,474)	(3,547)	(3,621)	(3,826)
Profit Before Tax (PBT)	(2,931)	278	5,164	13,968
Tax	-	555	(2,103)	(4,820)
Profit After Tax (PAT)	(2,931)	833	3,061	9,148
Extraordinary/Prior period Items	(2,073)	(1,370)	(60)	(1,045)
Adjusted Profit After Tax (APAT)	(5,003)	(537)	3,001	8,103

Balance Sheet

Period to (INR in Million)	FY01	FY02	FY03	FY04
Sources				
Share Capital	2,559	3,198	3,198	3,568
Reserves	29,979	21,452	22,773	32,368
Net Worth	32,583	24,651	25,972	35,936
Loan Funds	29,989	23,050	14,583	12,598
Def. Tax liability	-	-	1,053	5,142
Total	62,527	47,700	41,608	53,675
Uses				
Gross Block	56,381	57,695	58,890	59,854
Accrued Depreciation	(20,907)	(24,317)	(27,131)	(30,237)
Net Block	35,475	33,378	31,759	29,617
Capital WIP	2,761	1,406	1,922	2,861
Total Fixes Assets	38,236	34,783	33,681	32,478
Investments	13,872	11,899	12,718	30,568
Total Current Assets	27,658	26,956	29,820	36,957
Total Current Liabilities	(26,158)	(26,889)	(34,912)	(46,549)
Net Working Capital	1,500	68	(5,092)	(9,592)
Miscellaneaous Expenditures	8,919	-	301	222
Deferred Tax Assets	-	950	-	-
Total	62,527	47,700	41,608	53,675

Ratios

	FY01	FY02	FY03	FY04
Per share ratios				
EPS (INR)	(19.6)	(1.7)	9.4	22.7
Dividend per share	0.0	0.0	4.0	7.9
Book value per share	127.2	77.1	81.2	100.7
Valuation Ratios				
P/E	-	-	-	18.9
P/BV	0.0	0.0	0.0	4.0
EV/Sales	0.4	0.3	0.1	1.1
EV/PBIT	14.0	4.7	1.5	9.2
EV/PBIDT	5.2	2.5	1.0	7.4
Profitability Ratios				
OPM (%)	3.6	6.7	10.2	12.3
PAT %	(7.6)	(0.7)	3.4	6.3
ROCE	3.3	8.9	20.6	33.0
RONW	(15.4)	(2.2)	11.6	22.5
Liquidity Ratios				
Curent Ratio	1.1	1.0	0.9	0.8
Debtor's days	41.6	39.6	39.0	17.3
Inventory days	61.0	49.7	47.7	32.4
Creditors days	134.6	127.4	130.8	119.2
Leverage Ratios				
Debt/Total Equity	0.9	0.9	0.6	0.4
Component Ratios				
Raw Material	84.4	65.8	62.9	65.6
Staff Cost	10.9	9.5	8.1	6.8
Other expenditure	25.1	18.0	18.7	15.3
Payment Ratios				
Dividend Payout Ratio	0.0	0.0	48.1	39.3

Organizational Renovation at Tata Motors

- ♦ Right-sizing by bringing down manpower by 11,500 over the last three years.
- ♦ Concentrating both on asset and business restructuring besides cost cutting
- ♦ Strategies to reduce the cyclicality of the business were also undertaken.

Tata handpicked Ravi Kant from Philips in 1999 as executive director, commercial vehicles business.

The challenge Kant faced: two years after he joined was that Tata Motors almost sank and reported a net loss of Rs 500 crore (Rs 5 billion) - the worst in its history

Kant's main contribution to Tata Motors has been the push for international forays – one of the main reasons for his elevation to the post of MD ahead of ex-colleagues like V Sumantran.

He followed the outsourcing model and decided not to manufacture low-end items anymore. The company looked after only two key functions directly: *understanding and developing the market segments* and *commitment to customers*.

The first step was the alignment of the international business to the two business units - the passenger car business unit and the commercial vehicle business unit, to bring greater focus and increased synergy between the domestic & international operations

The crowning glory was the acquisition of Daewoo in Korea - a deal personally supervised by Kant. The synergies were significant - a presence in the 250-400 HP range of trucks was what the Korean company brought to the table.

From being present as an exporter in 70 countries, the company today focuses on 15-20 key countries where it will have a significant presence in terms of volumes and market shares

> ***"It's been a case of classic turnaround. From record losses a few years ago, Tata Motors has bounced back to become one of the most profitable private sector companies. Not only has it been able to maintain its pre-eminent position in commercial vehicles, the company has made its presence felt in the passenger car segment by taking on competition from Maruti and Hyundai Motors. The acquisition of Daewoo Commercial Vehicle has been a very bold and forthright move."***
>
> — Rahul Bajaj, CMD of Bajaj Auto Limited

♦♦♦

Corporate Budgeting Practices

Kedar K. Nijasure, FCA

*"If we command our wealth, we shall be rich and free :
If our wealth commands us, we are poor indeed."*
— Edmund Burke

Introduction

Budgeting is part of the financial planning process and in simple terms means preparing estimates of resources and their utilisation to understand implications and expectations of planned activity when carried out. Budget is time specific and gives an outline within which costs are expected to be and revenue is targeted to be achieved. When well communicated budget has the effect of creating a sense of discipline and commitment amongst employees to carry out planned activity to give desired results. Use of budget traditionally implies control mechanisms built into them for performance evaluation. It emphasizes co-ordination of inter-connected activities in the company. It is used to give in a comprehensive manner an over-view of the total business activity to the corporate heads.

In a sharp contrast with widely discussed Govt. budgets, corporate budgets have always remained an internal matter of top management. Its preparation as a process is least discussed by its participants in the company. Over decades budgeting as cost control measures has remained highly centralized in Finance and Accounts departments of the companies. The "Net results" of the estimated activity and actions were considered "guarded Secrets" until 1986. Earlier large scale involvement of millions of shareholders having financial stake in large size companies was not there. Top-down approach in giving revenue/ earnings targets by top management and feed back on them from front line mangers was followed by most of the corporates in budget preparations. Limits of allowable expenses by different departments/divisions or by activity centres were decided and laid down by finance and accounts people who were far away from operating realities. This dominance of finance and accounts people used to be cause of friction over performance evaluation for many efficient and effective line managers,even in many professionally managed companies.

A decade before, high level of corporate taxation in India and high interest rates in financial markets were leaving little room for sophistication in budgeting practices followed by most of the companies. Prior to 1985 use of computers was made by large companies only. After 1986 companies started using "spreadsheets" in preparing budgets and financial plans. It provided first level flexibility to financial mangers in frequently recasting financial projections. Budgeting was introduced and developed as a tool for controlling cost in multi-divisional manufacturing and distribution activities by large companies like General Motors, DuPont, Siemens etc. in the beginning of 20th century. It ruled the corporate world for nearly 100 years due to its simple to operate and easy to understand by employees down the line in the company as to its preparation and communication. This "annual" exercise was "fixed" in its nature and had little flexibility to quickly respond to the changes at operations centres.

Budgeting Process

Development of budgeting process was based on understanding of behaviour of cost components of the product or service. Companies looking beyond economies of scale used different costing tools or methods like marginal costing, differential costing for pricing their products/services and introduced refinements in their budget estimates. Advent of communication technology and its availability to masses has enabled large information data processing and its sharing in very short time and over long distances almost simultaneously. This has reduced market imperfectness and has changed nature of competition. Corporate budgeting practices can be examined in light of few measurable counts such as:

a) Time taken to build budget by companies of different size (by turnover)

b) Frequency of reforecasting the budget i.e. Monthly, quarterly, half yearly during financial year.

c) Nature of budget and its communication to people involved.

d) Use of "Spreadsheets" to achieve desired results.

e) Reliability, dependability, adequacy found by the corporates using it

Data about Indian companies' budgeting practices has not been researched specifically, but survey conducted by Business Finance, an international Journal can be of help to understand change in attitude of companies using it as performance measurement tool.

Majority of the companies take more than 3 months and half of them even more than 4 months.

About 25% of the responding companies take less than 2 months, of them few take less than 1 month, to produce and sign off annual budget. Many of them have expressed opinion that it takes too long to prepare and by the time it is ready for sign off, situation governing operations has changed so much that budget is rendered of little use in its true sense to measure performance. Ineffective budgeting process leads to making bad decision, because assumptions made are over-optimistic or far from reality. No wonder that such process causes disappointment and requires reforecasting. It fails to provide opportunity to take corrective action and in financial planners' opinion many times results in deferring capital acquisitions and expansion plans.

New thinking on budgeting process, consider it to be an on going process rather than single point event as "annual drill". Following views are considered as important:

1) There is need to use financial planners' time more for analysis of variances rather than spent on compiling data and reports,
2) Information is required in reasonable time by management to enable it respond to changing needs of customers and environment,
3) It should address only significant issues and drive to intelligent changes,
4) If people have to focus on key measures, it is necessary to identify what information is most important to them who are going to use it,
5) When budgeting process is aligned with strategic planning, top-down target setting process can cut down time taken in development of budgets by more than 30% than it takes in bottom-up budget process,
6) Tendency is to simplify the process to make it easier to tie it to the strategy decided and followed by the company
7) Communication of company's goals and budget process becomes most important to get buy-in of people working at all levels. Line managers or department heads should get better understanding of collective impact of their decisions.

Reforecasting

This brings us to examine views expressed by different company executives connected with budgeting process. To retain utility of budget as decision making tool it has to have reliability and if its preparation takes more than 2-3 months it requires a reforecast, many times even before it has taken a final shape for a sign off. Same survey throws light on whether all companies reforecast their budgets and if so, how frequently during the financial year? Even among large companies 25% do not do reforecasting. Among those who practice reforecasting nearly 40% of the companies do so quarterly in all size companies and 27% of the companies do so on monthly basis. Of the companies with annual turnover exceeding US$ 1 billion, about 40% do it regularly on monthly basis and about 1/3 do it on quarterly basis. Comparatively small i.e. 15% are found can still afford half yearly reforecast. Companies with annual turnover below US$ 100 million (smaller Companies) find favour with quarterly reforecast (about 43%) compared to monthly reforecast (about 33%). About 24% of smaller companies are comfortable with half-yearly reforecast.

Company executives when interviewed (by Business Finance Journal in 2003) on idealistic view about their preference to have frequency of reforecast to make their decisions based on more realistic situations and to make more "informed decision", 43% preferred monthly whereas 35% opted quarterly. But a small portion of 9% preferred even weekly and still less bi-weekly, which cannot be ignored. Rather than the size of the company, attitude of the people in control of business was important. But then what prohibits them from actually practising it? Responding executives citing various reasons gave following result :

1) Management's resistance to time involved – 23%
2) Cost of doing reforecasting – 11%
3) Time cost centre managers take to review – 29%
4) Time taken by finance department. to consolidate and administer reforecast – 24%
5) Other – 14%

Major stumbling block for more frequent reforecasting appears to be time it takes to do it at both levels i.e. Cost centre managers and finance department Large size companies (with multi-divisional, multi-product, multi-locational production/distribution facilities) have more that 200 – 300 cost centres. But they should not take more than 3 days for reforecast especially when it is to be done monthly. Smaller companies may take just 2 days to do it. Changing over to more frequent reforecasting system requires simplifying the budgeting process and in turn creates greater accountability. Making people accountable is key to success and accountability improves effectiveness of budgeting and planning process.

Budgets can be precise but they are not accurate. Need for reforecast has increased due to economic uncertainties and financial statements of public limited companies are under intense scrutiny by large number of people. In post- Enron era, after Sarbanes-Oxley reporting norms became operational, companies have been put up on query on their quarterly guidances. They are compelled to have more frequent reforecast to have their expectation about future earnings in line with their reported performance. More and more businesses need more accurate forecasting and so need better cost management.

Decentralisation

Traditional budgeting is proving inadequate to many companies which were relying heavily on it for cost efficiency. They are decentralising the process to line managers for business forecast and corporate finance being given role of monitoring and analysing them. This has caused several organisational changes like those shown in the following.

a) Basic training in finance and accounts is needed for line managers to generate their forecast with degree of confidence.

b) It requires change in skills to remain aligned with financial management of the company.

c) There is need to change emphasis from "Cost" to "Value" as companies now think in terms of "Risk adjusted return on capital"

d) New set of competencies are necessary for new culture to have shift from transaction oriented to decision support skills

e) Line managers should rethink their roles and should think more in future than in "past". Historical costs cannot serve the purpose of measuring performance.

f) Business growth for many businesses has not remained incremental but has been rapid. If rate of change is more, process cannot be tied to calendar i.e. Projections for 12months only. It has to be continuous, iterative and externally focused.

g) Qualitative analysis should increase.

h) Accountability can be tailored to reflect corporate priorities e.g. Even if overall budget review is slated quarterly, I.T. spend can be reviewed monthly.

Tying compensation to the process is ultimate test of accountability. Companies are now designing financial planning system based on identifying business objectives and goals and metrics needed to place in order to reach these goals. Changes in budgeting process are driven by changes in strategic planning. Willing participation of line mangers as buy-in of the financial planning process can increase when they create their own metrics against which they can be judged. They are the one who are intimately connected with production or service and the markets. Companies now like to measure whether performance of their mangers exceed the average performance metrics for their size activity. Line mangers have to provide adequate justification for the current projections, if not,then finance executives change the budget in review meeting. Metrics focus then drives the budget, and line mangers need to select such metrics that ensure accurate forecast and reforecast.

What Drives Budget? - A New Approach

Companies look to budgeting and planning process from a different angle. They are seeking assurance that

I) Right business drivers have been identified

II) Targets set by them are attainable

III) Projects developed or undertaken to attain those targets will do so.

Improvement in technology (from just data mining to online e-budgeting software) have helped companies achieve certain basic best practices e.g.

i) Identifying key drivers of business

ii) Attaching long and short term targets to these drivers

iii) Having transparency on them that allows company to link process and strategy.

Such companies are trying to establish cost parameters based on cost benchmarking information. They are focusing on where value is being created and where it is being destroyed. They have found that less number of such drivers gives more clarity and requires less efforts in reforecast of business earnings. However it has to be pilot tested, else putting technology first may make it unusable due to its complexity. When people are often evaluated against the budget, it makes the change to technology difficult. It becomes necessary to convince internal customers (i.e. Users) that software tool would improve their jobs. Barriers to such a change are mostly cultural. Right mix of technology, processes and people is required to make any significant change initiative successful.

Using Non- financial metrics

Several companies now do not want to be confirmed to financial metrics (as to costs or earnings) alone for measuring corporate performance. They consider following :

a) Identifying non-financial measures that drive company's success.

b) Establish short-term targets for those measures

c) Establish long-term targets for these measures

d) Identifying specific projects to achieves those targets

e) Reporting on progress of those project as frequently as financial results

Percentage of companies following all the above parameters is still very less. But out of the companies surveyed by CFO.com in July 2005, on these parameters 80% identify non-financial parameters (like personnel, utilization of equipment, etc.) that drive their business.

Shift from Spreadsheet culture

Finance managers find themselves more convinced and comfortable with “spreadsheet” due to its “Built-in flexibility”. Changes made in certain formulas or even in number of rows can miss out in documentation and can result in wrong calculation of forecasted figures making the spreadsheet vulnerable. Technical people at Microsoft have been working to make it more collaborate tool along with other enterprise resources planning tools by including control capabilities in new versions of “Excel” even auditors have identified use of password protection, protected servers and locking of cells as spread sheet controls to mitigate financial reporting risk.

However trend has developed in U.S. And Europe of using software tools like predictive planning or ERP products or OLAP (On line analytical Processing) for more comprehensive planning process. Large companies now using e-budgeting software have speeded up data collection process giving more time for qualitative analysis. Time spent by them (in man-hours) in data-entry, validation and synchronizing budget components of different divisions/units is reduced considerable in original preparation of financial plans as well as reforecast.

Practice followed at Microsoft corporation (as reported in CFO.com, July 2005) having 60,000 employees and operations in 99 countries is worth studying. It found centralization of Budgeting and Planning process unwieldy to its size. Engineering units were divided in to seven distinct business groups. Previously projects development group had no responsibility for revenue generation. It was decided to have separate CFO (Chief Financial Officer) for each business group with responsibility for groups strategy, business modelling and planning and market performance analysis as well as operating expenses. The BandP pattern decided was as follows:

1. Each business group reviews at the end of second quarter (for next year) its strategy, proposed changes and investments with CEO
2. Third quarter begins with "deep mid-year review" examining operational treads by geography, business line, and channels.
3. Based on this "bottom-up view for next 18 months look like" targets for group business are set
4. Each business group CEO's ambition for next year frames the budgeting process.
5. Then 2 months long actual budgeting begins for the company "Microsoft" as a whole.

Thus the company ensures that seven business groups "Budgets are based not only on their own product development strategy, but also on "corporate strategy"

Zero Base Budgeting

In 1978, US President Jimmy Carter was fascinates by the idea of Zero Base Budgeting (ZBB), a tool considered better than traditional Budgetary control prevalent at that time, for controlling expenditure by Govt. Departments. Many Universities found favour with it for containing their budgeting expenses with in their limited resources. Allocation of funds to various projects was tested on justification for incurring any expenditure on them and priorities were decided on worthiness of the schemes. In 1987-88 Maharashtra Govt. also found favour with using ZBB as technique to deal with or cut-down less priority public expenditure which was on the increase every year. Political pulls and pushes being stronger than economic justification in Government. It could not be practised on wider scale. Many big projects were characterized by cost overrun due to delay in execution. This was found in number of corporates also which embarked upon Mega Projects in steel, fertilizers Big five star Hotels etc. after spate of debenture and equity issues in 1993-94 e. g. Essar Steel, Oswal Agro, Hotel Leela, Hotel Rugby, Sterling Resorts etc. Not managing capital expenditure budgeting by PERT and CPM (critical Path Method), these companies lost grip over their projects and several hundred crores of public money were lost forever.

Idea of Zero Base Budgeting was used by a number of companies for designing their annual Budget between 1980 to 1990 in running their controllable expenses if not all. It was considered as part of Management by objectives. It was applied to certain obvious expenses first like.

1) Printing and Stationery
2) Telephone expenses (personal use)
3) Use of company vehicles (curtailing personal use)
4) Stores Consumed
5) Employee transportation
6) Energy Consumption
7) Advertising and publicity – driven by high cost of paper; first victims being expenses on calendar, diaries etc. (However company annual reports received this attention very late). This move was resisted by Advertising Agencies claiming it to be necessary expenditure.
8) Donations for charitable cause – except for those founded by political parties.
9) Foreign Travel Expenses.

Demands for additional employees, extended credit by sales department. and product development by RandD department were also under the ZBB lens. This new approach was more based on cost-benefit analysis and result oriented rather than continuing old practices. Perhaps it has lost its steam after 1994–95 for more expensive application in corporate as well as Government organisation. Rapid growth of many businesses especially software industry and other service industries make industry captains to look for different aspects of measuring performance i.e. not by lightening belts alone but by enlargement of cake for every one.

Beyond Budgeting

Kaplan and Juergen H. Daum advocated different operational and planning model that was flexible compared to traditional budgeting process. Product innovation and organisational innovations, according to them, are main drivers of current businesses.

Creating value for customers through customer satisfaction to survive in competition and to avoid less of market and more value to shareholders by increasing their wealth have become objectives to attain while designing and deploying corporate strategy. That has given rise to "Balanced scorecard" as new management tool to judge performance of the company and more companies are developing "benchmarks" to measure it against. These companies are moving to self governance and responsibility culture.

Key Performance Indicators (KPI) are being used against actual performance and target setting is becoming more market driven. Instead of individual houses relative team rewards are put forward and distributed controls are used in place of fully centralised decision making. Use of anticipatory system and reliance on just in time to keep inventory levels and cost at low are other features of new business planning methods.

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Budgetary Control in a 'Padta' system

"Padta" system is where the top management have exclusive prerogative for most decisions and a tight, well knit though, budgetary control mechanism is in operation. This mechanism is referred to in the vernacular as "Padta"[1] System.

The business house is a large industrial group having a net work of diversified industries. The Padta system operates for all the units under the house. Our study will relate to the textile division of the house.

The cotton textile division, located in a metropolitan city, is engaged in the manufacture of cotton yarn, grey cotton cloth and bleached, dyed, printed cotton fabrics of different qualities and different styles.

The company produces about 20 different basic qualities of grey cloth are manufactured by different permutations of these yarn counts in length and breadth. They are referred to in textile language as "warp" and "weft". These are then processed to give a wide range of fabrics in different shades, prints and finishes. The company enjoys a good reputation for its products, and has a monopoly in some fabrics. Another point of interest is that the textile division accounts for a considerable portion of the total activities of the company. Raw cotton and wages account for nearly 75 perent of the total cost in the industry. Secondly, dyestuff and chemicals also account for a reasonable percentage of production cost. Thirdly, Government policy, which is oriented to protecting the handloom and powerloom sectors of the industry, has come down severely upon the expansion of the textile units. Even modernisation is subject to certain directives.

The Padta system has to accept the environmental and structural factors as given. We are now in a position to review the modus operandi of the Padta system.

The key factor is the sales. The sales budget is therefore appropriately the starting point for initiating the budget process. The sales are booked through the agents (in turn assisted by a field sales force) all over the country.

The orders are booked well in advance for nearly four months. The sales pattern (mix) keeps on changing from month to month.

The sales mix a crucial parameter affecting the production mix. At the processing stage, there is adequate flexibility to adjust the production mix to suit altered consumption pattern. The shade or point or finish can be adjusted. However, the weaving department operations require that the looms are set to produce a particular quality. Either uniform quality can be produced or uneconomic production runs will have to be tolerated to suit the variety production. Again, the spinning department enjoys considerable flexibility. The company practice is to operate monthly production runs for the weaving department. The first day of the month is the day on which a given quality is set on the looms for the weaving operation. The sales requirements adjusted for opening and closing inventories will be the expected production from a given weaving operation set to produce a given quality. The weaving programme becomes the key factor for the production activities. Processing operations are planned on a day-to-day basis.

The above production programme is the basic framework within which the Padta operates. Padta refers to the vernacular method of communicating the idea-How much does it cost?

The basic philosophy of the Padta system is the concept of 'Bogey Standards'. There are the Basic Padtas which are used as norms to measure the performance of the actual operations. Each element of cost is carefully accounted for and actual cost of every element is assembled for purposes of comparison with the basic Padta. The comparison results in a series of 'losses and gains' corresponding to the Padta and actual of each element of cost. The algebraic sum of all losses and gains gives the net variance.

The basic Padtas are defined in a series of statements. These statements taken together constitute the "Basic Padta File". The Padta

1 *Source: "Padta": kitna padta hai (How much does it cost?)*

statement corresponds to the production plan or realization statements. The activity level is based on a three-shift basis, with each shift taken as seven and a half hours each.

The first statement is the 'Daily Standard Weaving Programme' and the corresponding 'Realisations Statement'. The above paragraph has mentioned explicitly that the weaving programme is flexible and set every month to last for that month. A standard weaving programme may seem to be an apparent contradiction. However, this is not true. Because the comparison method prevents any contradiction from arising. The production mix in the standard weaving programme represents an average pattern that was prevalent at the time the basic weaving programme Padta was installed. The management does not offer any explanation, about its origination. The standard weaving programme forms the basis for the standard sales realization programme.

The next statement is the Basic Padta File relates to the standard spinning programme which is derived from the weaving Padta programme. The spinning programme is arrived at on the basis of the yarn requirements, of the production mix entailed by the standard weaving programme.

Next follows, the requirements of cotton and sizing chemicals. The input-output ratios for chemicals vis-a-vis different counts of yarn have been specified. Again, each count of yarn requires particular 'cotton mix' and a particular 'size mix'. The composition of the cotton mix and size mix are laid down. The rates relate to those prevailing at the time the standards, originated in the company. The above details help to ascertain the total cost of cotton and also the cost of chemicals. The next thing one comes across is the cost statements (not less than fifty in number). These show the cost standards for each element. The statement shows the Padta, the actual and the variance on a day-to-day basis.

The cost statements take into account the need for cost classification. We come across two types of costs-related costs and unrelated costs. Related costs are those costs which vary or are related in some fashion to the activity level. The activity level may be defined in terms of Padta Weaving Programme or the Padta spinning programme. A standard related cost rate is used for costing purposes. The total related cost per day is calculated by using the related cost rate.

Thus, consumable stores cost depending upon the related cost rate and the relevant Padta spinning and weaving programme. The consumable stores cost per day is arrived at as follows:

Table

(a) Spindles Worked (Padta spinning programme)	Related Cost rate per spindle	Total Cost
(b) Looms worked (Padta weaving programme).	Related Cost rate per loom	Total Cost

In a similar fashion the relevant cost rates are available for each element of cost, viz. electricity, fuel, oil, etc. It is necessary to reiterate that these rates were arrived at, at the time the Padtas were evolved.

The second type of costs is the unrelated costs. Theses are mostly fixed costs like wages, salaries, perquisites, welfares, donations, liaison, watch and ward, sanitation, insurance, rent, rates and taxes. These fixed costs are incurred, usually, on a monthly or an annual basis. The number of working days in month/year is used as a basis to calculate the unrelated cost rate per day. This rate becomes the rate at which fixed costs are absorbed.

The detailed costing ultimately culminates into the Padta summary statement which is the income statement or the profit and loss account.

The control system operates with the help of the following:

1. Performance reports on a day-to-day basis.
2. Loss/gain reports on a day-to-day basis.
3. Report, interpretation and control action.

Source : Dr. Guruprasad Murthy, Management Accounting, pp 322-326, Himalaya Publishers, Mumbai

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Capital Budgeting in IT Projects: A Return on Investment (ROI) Approach

Shankar D. Kanhere and Dr. Vishnu Kanhere

"No classification plan for investment is useful for all purposes. A capital outlay has too many facets to be described adequately by any one of them, Each facet is in effect a dimension of the outlay and a separate basis for distinguishing different types of investments."

— Joel Dean

"Without the budgeting tool, the volume of expenditures might remain the same, but both the quality of the expenditures and their unity of direction would probably suffer."

— Donald R. Istvan

Abstract

IT Projects by their very nature are not amenable to cost-benefit analysis. A number of non-quantifiable factors and variables with associated risks and uncertainties make the exercise difficult. A properly calibrated ROI model, using quantification of intangible factors and minimising the risk of uncertainty through estimation techniques and decision matrix, together with qualitative evaluation and cash impact assessment can provide a reliable benchmark for evaluation and selection of IT projects.

Introduction

Capital expenditure typically involves a current outlay (or current and future outlays) of funds (**costs**) in the expectation of a stream of **benefits** extending into the future. Capital expenditure decisions generally are among the most important decisions taken by a Corporate due to:

- Long-term effects: The scope of Corporate activity is largely governed by past capital expenditure, and current capital expenditure forms the structure for future activity.
- Extensive outlay: Generally any capital expenditure involves heavy outlay in the initial stages. Technology intensive ventures (like IT projects) incur greater expenditure.
- Commitment: Reversal of a decision may result in scrapping expensive capital equipment. A wrong decision can not usually be reversed without substantial losses.

Because capital expenditure can be very large and have a significant impact on the financial performance of the firm, great importance is placed on project selection. This process is called **capital budgeting**. Capital budgeting is aimed towards attaining optimal allocation of scarce resources to ensure maximization of investor wealth. Capital budgeting makes use of various tools to analyse the costs/benefits of alternatives in aiding the decision making process, such as:

a) Net Present Value
b) Internal Rate of Return (IRR)
c) Profitability Index
d) Payback Period
e) Return on Investment (ROI)

Cost-benefit analysis of IT projects is a difficult exercise, since it involves many intangibles, which are hard to control and quantify in monetary terms. For this reason, most firms avoid it.

Moreover, IT projects have a high degree of uncertainty in respect of expected productive life, gestation period, periodicity and quantum of inflows, expected future outflows required for maintenance over the life cycle, and consequential costs.

As a result it is seen that most decisions involving IT projects are based more on qualitative criteria, than on a financial evaluation of costs/benefits involving use of ROI.

IT Projects

IT Projects differ substantially in terms of the risks and returns, the key issues and their impact on the organisation. For example, research and e-commerce projects involve a much greater risk than inventory management and accounting packages. Organisation wide projects like "Total Bank Management" can give a strategic competitive advantage to the organisation unlike routine automation. Likewise, Information Security projects can make a vital difference to the very existence of business in the case of serious disasters like 9/11.

Types

IT Projects are often categorised by their nature as it helps in comparing and contrasting the choice and selection of methods as well as the sensitivity of results.

a) Software Development Projects

b) Computerisation Projects

   i. Organisation wide

   ii. Segment/Process/Function

c) Infrastructure Projects

d) Information Security Projects

e) E-enabling systems and processes

f) Research Projects

g) E-Commerce Projects

Modes of Execution

Another distinguishing feature of IT projects is the wide range of choice for acquiring, implementing and putting them in place. The solutions available themselves are on various platforms, use different technologies and cover various modes/manner of development. These projects can be either – developed and implemented in-house, executed through body shopping and turnkey contracts or set up using packaged solutions. Again, the entire IT function can be either fully or partly outsourced. This makes comparison and evaluation of different projects within the organisation and across the industry difficult.

Existing Scenario

The current trends in investment decisions on IT projects revealed in the survey of major software developers and users are summarised below:

- Decisions are based on Business Expediency, mixed evaluation, qualitative evaluation, financials and demonstration effect in descending order of importance.
- Risk is sought to be minimized by looking at business rather than technology solutions using open systems, benchmarking, fall back procedures, transfer of risk to suppliers and defining project failure points. No risk evaluation in 12% of the cases.
- Projected and realised benefits were compared and evaluated by 12% on hunch, 13% on financials and by the rest mostly on qualitative factors.
- 17% of software developers use ROI, 50% use Cost/Benefit and 33% use both, to indicate performance to clients. Payback, NPV and other methods were not preferred.
- Most software developers explain risk factors to users with quantitative analysis.

Thus, decisions of IT developers are based on quantitative models using Cost/Benefit and ROI whereas users lay greater stress on qualitative factors and hunch making the exercise subjective. To bring objectivity, it is necessary to use ROI as a criterion in the decision-making process.

Significance

Return on Investment is the basic causal ratio in the analysis of operations of an organisation. It is the ratio between profits earned and the resources employed in the project. ROI helps measure the efficiency of resource use and provides a starting point to analyse the influences and trends in the entity's performance. In fact, the case for making an investment/project decision and even for choosing between alternatives depends to a great extent on evaluation of ROI. ROI combined with capital budgeting techniques of Net Present Value combined with Payback period can be used with great advantage to ensure that the project will not suffer cash losses.

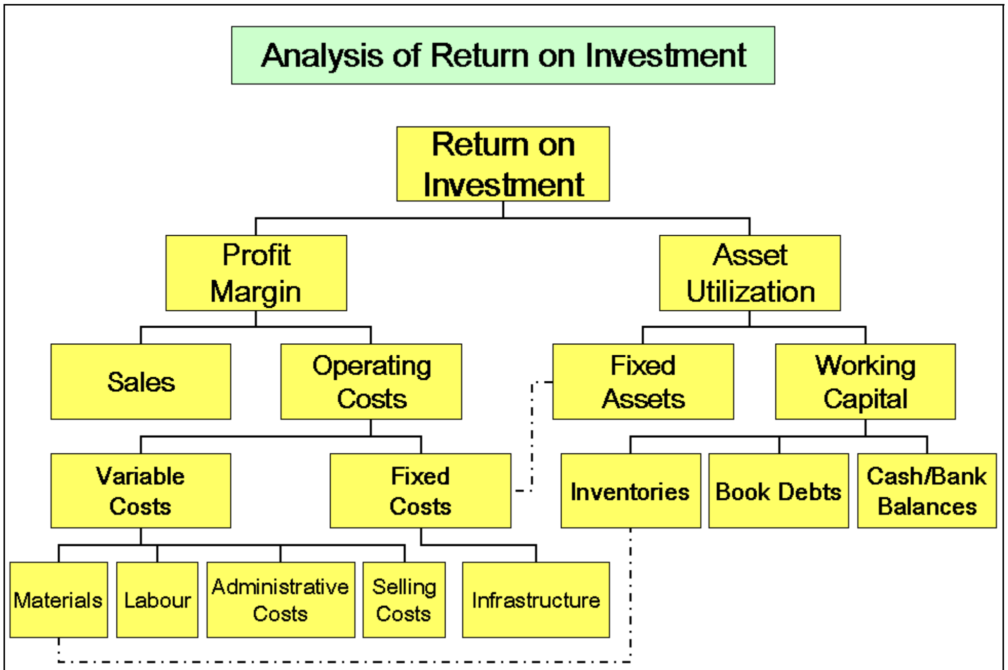

Figure 1:

Given the nature of IT Projects, we have to suitably modify the chart to cover them.

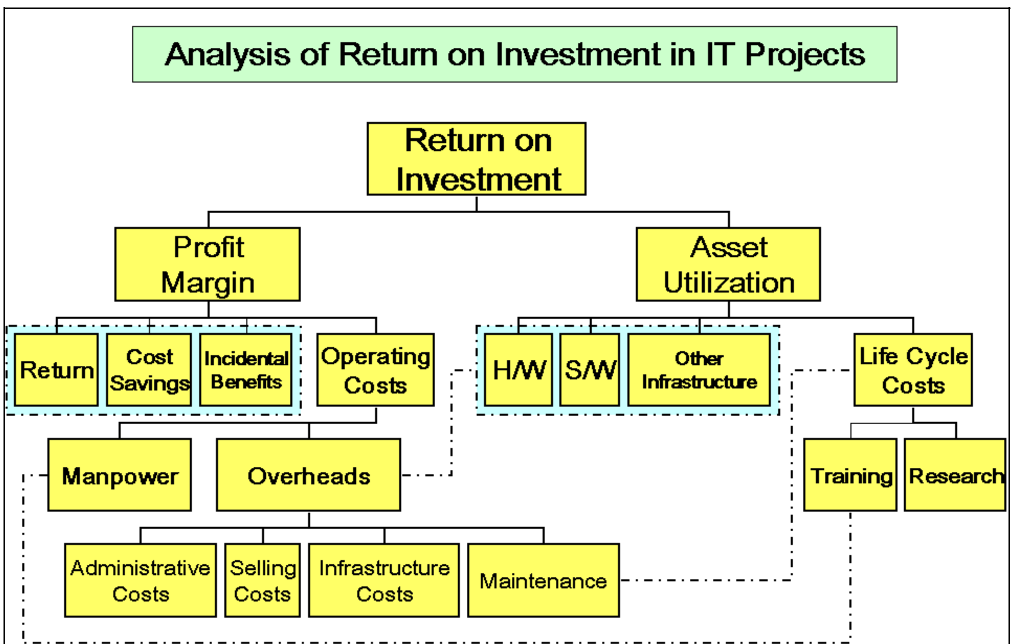

Figure 2:

Most organisations spend a lot of time estimating initial development costs not so much on estimating benefits, how fast people will start using the system or the chance the project will never be finished.

The Mathematics of the ROI Calculation

Three data points are required:

- The time period.
- The investment.

- The return – This is the sum of the cost savings and revenue enhancements gained from the project.

There are three ways to calculate the ROI:

If you gain benefits equal to Rs.10 lacs in 1 year on a total investment of Rs.2.5 lacs in the same time period, the ROI can be calculated as follows:

a) As a percentage —

Return = Payback (P) – Investment (I)

$$ROI = \frac{P - I}{I} \cdot 100$$

or in this case:

$$ROI = \frac{10\,lacs - 2.5\,lacs}{2.5\,lacs} \cdot 100 = 300\,\%$$

b) As a ratio — Divide the return by the investment.

10 lacs/2.5 lacs = 4:1

c) As a time to break-even — Determine the number of days, weeks, or months it will take to break even on the investment, say 12 months in our example.

Time period to break-even = (Investment/Return) * Time Period

(2.5 lacs/10 lacs) * 12 months = (0.25)*12 = 3 months or 90 days.

Any ROI analysis, to be comprehensive and relevant to IT projects, should include the following categories of potential costs and benefits in determining the return from these projects:

Hard costs are directly identifiable financial costs specific to the project.

Indirect costs are allocated costs attributable to the project.

Soft costs include opportunity costs and consequential costs like costs incurred on business reorganisation and cost of modification to and impact on existing processes.

Hard revenue inflows are the direct earnings and cost savings.

Indirect revenues are the cost savings in future projects due to replication and synergy.

Soft revenues include benefits of increased productivity and efficiency.

Soft costs and revenues are generally difficult to quantify and IT Managers therefore assign an arbitrary figure to these intangibles, by using Figure of Merit Analysis, Delivered System Capability, Polar or Kiviat Graphs or other models, which essentially makes the cost-benefit analysis of IT projects subjective.

Estimation

In normal ROI analysis, all costs and benefits are shown as a single, precise value, implying that the exact figure is known. Benefits of a certain factor show up in more than one performance criterion, leading to double counting.

It is possible, however, to represent these values more realistically using “probability distributions” to show how much we really know about each number in a cost-benefit analysis. Quantifying uncertainty is a prerequisite to calculating the value of information and the expected returns from it.

We can use statistical representations (such as normal distributions, discrete binary and so forth) to determine the amount of uncertainty. Applying a normal distribution (not always the most realistic but the most straightforward example) to our scenario, we could use the standard deviation to express the uncertainty. According to statistical mathematics, there are 3.92 standard deviations in a 95 percent confidence interval. Once we have quantified the uncertainty of each variable, we can start calculating how much additional information is worth for each variable.

Rather than going in for point estimates, which can be inaccurate, and probability distributions, which being statistical aggregating techniques result in loss of detail, a practical approach to resolve the uncertainty is to use the Decision Matrix. Three outcomes, each with certain probabilities, are calculated for both costs and revenues generating a range of values for the ROI in nine possible combinations.

Optimistic Return	Lowest Costs
Most Likely Return	Most Likely Costs
Pessimistic Return	Highest Cost

Table 1

The values would range from the highest ROI (Optimistic Returns – Lowest Costs) to the lowest returns (Pessimistic Returns – Highest Costs).

Using the range of values so worked out, the projects can be evaluated and placed in the decision matrix given in Figure No. 3.

Return	High Risk High Return (Cautiously Examine)	Low Risk High Retun (Identify - Develop)
	High Risk Low Return (Avoid)	Low Risk Low Return (Routine)
	Risk	

Figure 3

If the potential use and applications of the IT project are properly identified, reasonably good estimates of Cost/Benefit can be developed to significantly reduce the uncertainty.

Gathering further information can also reduce the uncertainty, but at a cost. The economic value of a variable in the cost-benefit analysis tells how much the additional information about the variable reduces the Expected Opportunity Loss, i.e., how much benefit the further information results in. The expenditure in any case should not exceed the Expected Value of Perfect Information, beyond which, the costs of gathering the information will outstrip the benefits. This is a sensitivity analysis of the decision.

Important Variable/Issues

Project Cancellation: IT projects are often abandoned, making the ROI exercise redundant. Risk adjusted ROI applying adverse loading is the solution.

Teething problems: Projects are generally delayed or under-utilised, which can be reflected in ROI by time value adjustment.

Required Return: IT projects aim at business objectives and not necessarily revenues. ROI may result in the rejection of a viable proposal. To avoid this, cut-off rate should be kept at the break-even level.

Cost of Commitment: Investing in IT Systems restricts future choice, adding to future cost. Cost of commitment is generally balanced by the cost of not committing and can be safely ignored.

Obsolescence: The risk of obsolescence and the associated future costs are not reflected in the ROI model. An appropriate cap in years on the future revenue streams eliminates this risk.

Calibration: The absence of comparison of calculated and realised ROI and lack of historical data makes benchmarking difficult. Cash Impact Assessment comparing direct cash revenues and costs will prevent cash losses.

Proven vs. Emerging technologies: ROI favours proven technology, inhibiting use of untested technologies. Applying Option Pricing Method to the ROI levels the field.

To make the best of investment decisions, IT management must learn how to compute the value of information, and start putting a value on the intangible elements in cost-benefit analyses. This will ensure that measurements are properly prioritised and the profitability of IT projects will be more correctly determined.

Conclusion

Determining the ROI of IT projects helps in crystallising the intangible benefits and non-quantifiable considerations. This enables the management to weigh all the factors in the right perspective, to arrive at informed decisions rather than relying on instinct alone. With interest rates falling, conventional ROI alone is not an appropriate tool for deciding whether or not to go in for IT projects. This decision should be made rather on a business case. ROI would be more appropriate for making a choice between different alternatives.

Hence, ROI should be tempered with assessment of the competitive advantage of IT proposals. A balanced scorecard is given in Figure No. 4, with ROI being a key player.

Costs/Benefits of IT projects largely depend on the human factor, cost and revenue drivers, software metrics and organisational characteristics, which can substantially influence end-results.

Refining ROI estimates through learning experience, by comparing estimated and realised ROI will improve this tool with each successive project, resulting in better calibration and better estimates.

ROI will thus, become a tool of choice in the hands of IT decision makers.

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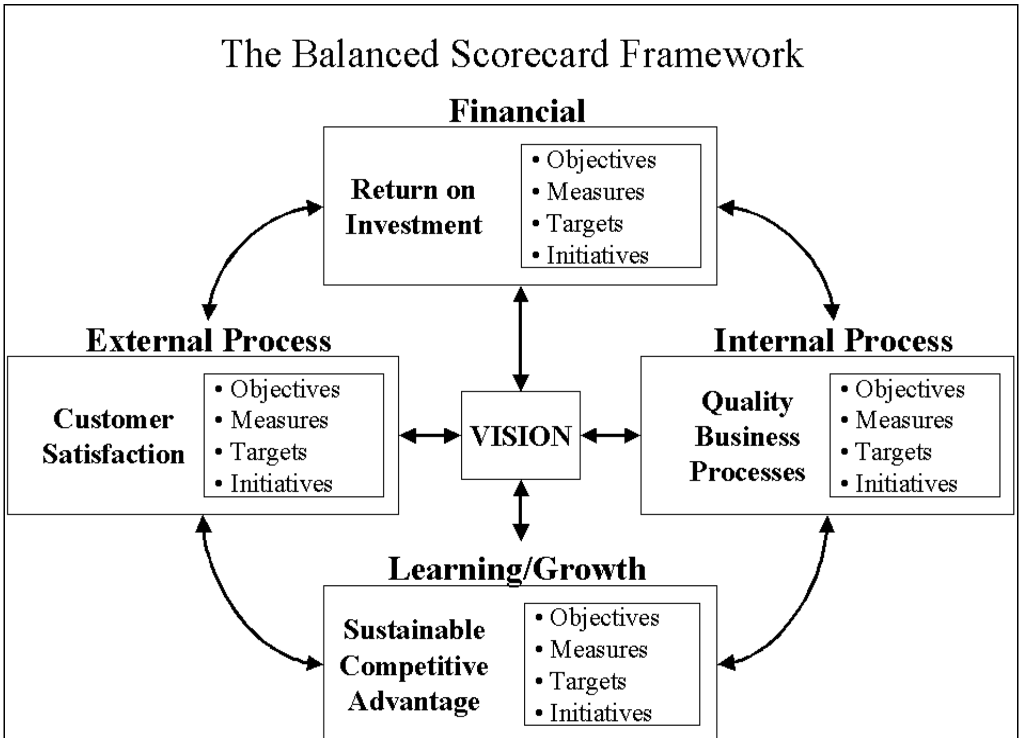


Figure 4:

ROI in General Motors

Rate of return's bearing on organization :
"It increases the morale of the organization by placing each operation on its own foundation, making it feel that it is a part of the corporation, assuming its own responsibility and contributing its share to the final result."

As to its bearing on financial control :
"It develops statistics correctly reflecting the relation between the net return and the invested capital of each operating division – the true measure of efficiency – irrespective of the number of other divisions contributing thereto and the capital employed within such divisions."

As to its bearing on strategic investment:
"It enables the corporation to direct the placing of additional capital where it will result in the greatest benefit to the corporation as a whole."
Source: My years with General Motors, Alfred P. Sloan

More revenue does not mean more profit

Profit =Revenue – Cost

Hence Cost is also a lever which influences profit

"Effectiveness means doing the right things,
Efficiency means doing things rightly"
Peter Drucker

गुंतवणूकीवरील परतावा
(हिंदुस्तान लिव्हर लि. चे अभ्यासण्यासारखे उदाहरण)

Kedar Nijasure and Deepti Gokhale

"Whoever makes two blades of grass grow where only one grew before deserves better of making than any speculative philosopher or metaphysical system builder."

— Jonathan Swift

"The chance of success of a given investment (whether of capital or labour) depends on the efficiency with which all those who work in the same firm co-operate with the factor in question."

— J. R. Hicks

उद्योगधंद्यातील एकूण गुंतवणूक - ही दोन प्रकारांनी बनते. एक स्वतःची गुंतवणूक व बाहेरील दीर्घ व अल्प मुदतीची कर्जे. स्व-गुंतवणूक ही उद्योगातील मूळ गुंतवणूक व नफ्याची पुनर्गुंतवणूक (वाटप न करता केलेल्या नफ्याच्या स्वरूपात राखून ठेवणे) ह्यांची एकत्र बेरीज असते व ती कर्जाचा भार वजा करून उरलेल्या नक्त मालमत्ते एवढी असते.

निव्वळ नफा - ठोकळ नफ्यातून उत्पन्नकर वजा केल्यावर निव्वळ नफा उरतो व तो भागधारकांना वाटण्यास उपलब्ध असतो. सर्वच क.म्पन्या सगळा निव्वळ नफा लाभांश म्हणून वाटप न करता स्वतःच्या उद्योग वाढीसाठी त्याचा काही भाग राखून ठेवतात. भविष्यातील नफ्याच्या चढ-उताराचा पुढील वर्षाच्या लाभांशावर परिणाम होऊ नये म्हणून तसेच रोख तरलता सांभाळण्यासाठी याचा उपयोग होतो. यालाच कंपनीचे लाभांश धोरण असे म्हणतात. दीर्घ मुदतीची कर्जे वेळेवर परत होण्याची क्षमता एकूण निव्वळ नफा जास्त असण्यावर मोजली जाते .

रोख नफा - ठोकळ नफ्यामधून मालमत्तेवरील घसारा वजा केल्यावर करपूर्व नफा मिळतो व त्यातून कर वजा केल्यावर करोत्तर नफा मिळतो. हा पुस्तकी नफा होय. त्यामध्ये पुन्हा मालमत्तेवरील घसारा मिळवल्यावर (तसेच पूर्वीच्या वर्षातील खर्चापैकी चालु वर्षात वजावट केलेला खर्च करोत्तर नफ्यात परत मिळवल्यावर) येणारा नफा हा रोख नफा समजला जातो. उद्योग व्यवसाय चालू ठेवण्यासाठी एखाद वेळेस पुस्तकी तोटा असला तरी रोख नफा असायलाच हवा.

नफ्याचे प्रमाण (अर्थात नफा क्षमता) - करोत्तर निव्वळ नफ्याची उद्योगातील स्वगुंतवणूकी (भागभांडवळ व निधि + उरलेला नफा) वर काढलेली टक्केवारी. त्या गुंतवणूकीवरील परतावा किंवा नफ्याची क्षमता वाढणे अथवा टिकवून धरणे हे उद्योगाच्या व्यावसायिक धोरणाचे उद्दिष्ट समजले जाते. स्पर्धेच्या वातावरणात हे साध्य करणे हे उद्योग व्यवस्थापनापुढील खरे आव्हान असते.

बाह्यकर्ज व स्वगुंतवणूकीचे गुणोत्तर - बाह्यकर्जाचे स्वगुंतवणूकीच्या तुलनेत एकूण गुंतवणूकीत असणारे प्रमाण हे नफा क्षमतेच्या अभ्यासाचे महत्त्वाचे अंग असते. बाह्यकर्जास स्वगुन्तवणुकीने भागले असता हे गुणोत्तर मिळते. हे प्रमाण १ पेक्षा जास्त असल्यास कर्जावरील व्याज हे कर-सापेक्ष असल्याने स्व -गुंतवणूकीवरील परताव्याचे प्रमाण (नफा क्षमता) नफ्यातील उद्योगाच्या बाबतीत वाढू शकते. म्हणूनच व्यावसायिक उद्योजक बाह्यकर्जाचा वापर करून स्व-गुंतवणूक अधिक फायदेशीर करण्याचा प्रयत्न करतात.

निव्वळ नफा व एकूण मालमत्ता यांचे प्रमाण (मालमत्तेची उत्पादकता) - करोत्तर नफा एकूण मालमत्तेने विभागल्यास हे गुणोत्तर येते. ज्या उद्योगात भांडवली गुंतवणूक जास्त लागते त्या उद्योगात हे प्रमाण कमी आढळून येते. नफ्याची पुनर्गुंतवणूक सातत्याने दरवर्षी केल्यास मालमत्तेत वाढ झाल्याचे आढळून येते, परंतु नफा वाढण्याचे प्रमाण कायम राहतेच, असे नाही.

Three ways of improving ROI:

- ♦ Increased Revenue
- ♦ Reduced Cost
- ♦ Management of investments effectively and efficiently

(रु. कोटी मध्ये रकमा)	२००४	२००३	२००२	२००१
विक्री	९९२६.९५	१०१३८.३६	९९५४.८५	१०६७५.५७
इतर उत्पन्न	३१८.८३	४५९.८२	३८४.५४	३८१.७९
एकूण उत्पन्न	१०२४५.७८	१०५९८.९८	१०३३९.३९	११०४९.३६
नफा (करपूर्व आणि असाधारण बाबींपूर्वी)	१५०५.३२	२२४४.९५	२१९७.१२	१९४३.३७
नफा (कर व असाधारण बाबी पश्चात)	११९९.२८	१८०४.३४	१७१७.२७	१५४०.९५
निव्वळ नफा	११९७.३४	१७७१.७९	१७५५.६८	१६४९.३१
स्व- गुंतवणूक	२०९२.७१	२१३८.७३	३६५८.८८	३०४३.६९
कर्जे	१४७९.११	१७०४.३०	५८.३०	८३.७४
एकूण भांडवली गुंतवणूक	३५६३.८२	३८४३.०३	३७१७.१८	३१२७.४३
स्व-गुंतवणूकी वर नफ्याचे प्रमाण	५७.२१%	८२.८४%	४७.९८%	५३.९२%
एकूण भांडवलाशी नफ्याचे प्रमाण	३३.५९%	४६.१%	४७.२३%	५२.२५%

निष्कर्ष :

१. २००१ सालाच्या तुलनेत २००२ साली निव्वळ नफा वाढला आहे, पण नफ्याची टक्केवारी कमी झाली आहे.

२. २००३ मध्ये कंपनीने स्व-गुंतवणूक कमी करून बाह्य कर्जाचा आधार घेतल्याने निव्वळ नफा साधारणपणे २००२ सालाएवढाच झाला आहे, पण स्व-गुंतवणूकीवरील नफ्याचे प्रमाण ८२.८४% पर्यंत वाढले आहे.

३. २००१ सालाच्या तुलनेत २००३ पर्यंत एकूण भांडवलाची गुंतवणूक वाढली आहे , तरी नफा थोडासाच वाढल्याने एकूण भंडवली गुंतवणूकीची नफा -क्षमता ५२.२५% वरून ४६.१% पर्यंत कमी झाली आहे.

४. २००१ सालाच्या तुलनेत २००३ साली विक्री व एकूण उत्पन्न कमी झाले , तरी निव्वळ नफा वाढल्याने नफा-क्षमता (स्व-गुंतवणूकीवरील) वाढलेली दिसते. पण एकूण भांडवलाची नफा -क्षमता (टक्केवारीने) कमी झाली आहे.

♦♦♦

Target Costing : HLL Paradigm
Sales = Cost + Expected Profit
Profit = Sales – Cost
Cost = Sales – Profit
Consumer Led *Our Ambition*

Measurement of Profitability

It has been argued that profitability is the primary aim and the best measure of efficiency in competitive business. However, profits as such are meaningless unless related to the equity (ordinary) shareholders' investment in the business. The relationship between the capital invested in a business and the profits earned is the rate of return of capital employed. The ability to earn a satisfactory rate of return on equity shareholders' investment is the most important characteristic of the successful business. Increased sales volume is at best a short term indication of successful growth, and without additional information, must be viewed as such.

In the long run, increased sales volume may prove a deceptive guidepost if there is not a proper return on the capital necessary to support these sales. Real growth comes from the ability of management to employ successfully additional capital at a satisfactory rate of return. This is the final criterion of the soundness and strength of a company's growth, for in a competitive economy capital gravitates towards the more profitable enterprises. The company that is merely expanding sales at a declining rate of return on capital employed will eventually be unable to attract expansion capital. Thus any measurement of a company's effectiveness must be based on the successful employment of capital.

Source: J. Sizer, An Insight into Management Accounting, Pelican, 1975

Cross Cultural Patterns of ROI

Amitpal Singh and Rajkumar Singh

As guided by Dr. Guruprasad Murthy, Director, DR VN BRIMS.

"Sirs, The Indian who sold Manhattan for $24.00 was a sharp salesman. If he had put his $24 away, at 6% compounded semi-annually, it would now be $59.5 billion and could buy most of the now-improved land back." — *S. Branch Walker, Stanford, Conn. (Life, August 31, 1959)*

"Investment, thus defined, includes, therefore, the increment of capital equipment, whether it consists of fixed capital, working capital or liquid capital; and the significant differences of definition (apart from the distinction between investment and net investment) are due to the exclusion from investment of one or more of these categories." — *John Maynard Keynes*

Introduction

The use of ROI as a performance measurement index has been accepted universally. This index has been further customized for use by corporates as required. Its limitless applicability enlarges its scope. In this paper, discussed in the pages to come, is ROI and its cross cultural pattern, considering its factors i.e. revenues, assets, profit, profit margin and asset turnover. It highlights facts that are not apparent with the help of the available figures. In each respect (i.e. factors) the companies at the top are not the same which, to an extent, defy statements such as 'more revenues mean more profits' or 'more assets mean more revenues.'

Before going further, it must be made clear that the data with respect to Indian companies has been made available through the internet (courtesy www.equitymaster.com) and was available in Rupees-Millions. This financial data was converted into the Dollar equivalent with the help of the prevailing rate as on 31st March, 2005 i.e. $ 1 = INR 43.62 (taken from www.rbi.org.in). The financials of US companies have been taken from the Fortune 500 magazine, July 2005 issue. It has been assumed that the organisations topping the charts in Fortune 500 are those top in their own countries as well (the sheer size of their financials makes them leaders in their own nations). As a basis of comparison for revenues, assets and profits; the figures of Indian companies have been expressed as percentages of their respective US, Japanese and Chinese counterparts.

The comparison aim to bring out different trends that are being followed lately in the top companies of the US, Japan, China and India. India has been taken as a centre and the quality as well as quantity of the financials of its top companies has been compared with those of other countries.

Revenues

Revenues form the basis for all comparison for companies Worldwide. For any company its revenue figure would display its gross strength and ability to leverage upon the market and its product. A firm may generate its revenues from sales and activities other than sales (investments and other sources). When discussing revenues, the size of the figure becomes the basis of comparison. An interesting view emerges through the comparisons of the revenues of the top companies of the US, Japan, China and India.

India-US: The culture of US economy is market driven whereas that of India is slowly and steadily moving towards market driven economy with the government beginning to act as a liberal parent for the prospering Indian economy. The two economies when compared indicate that the Indian economy is on the path of being termed as developed and also one of the most competitive among the World's other economies. The US companies have their dominance in generating revenues as compared to Indian companies. This is due to the fact that economies of scale are being utilized to their fullest advantage in the US. This is further supported by the fact that number one Indian company is almost three times smaller than number ten US company in terms of revenues.

<table>
<tr><th colspan="6">Table 1</th></tr>
<tr><th>Country</th><th>Rank 2005</th><th>Company</th><th>Revenue ($ mn.)</th><th colspan="2">Indian rank one and ten as % of US rank one and ten respectively</th></tr>
<tr><td rowspan="2">US</td><td>1</td><td>Wal-Mart Stores</td><td>287,989.0</td><td colspan="2">12.13</td></tr>
<tr><td>10</td><td>IBM</td><td>96,293.0</td><td colspan="2">4.97</td></tr>
<tr><td rowspan="3">Japan</td><th>Rank 2005</th><th>Company</th><th>Revenue ($ mn.)</th><th>Indian rank one and ten as % of Japanese rank one and ten respectively</th><th>Japanese rank one and ten as % of US rank one and ten respectively</th></tr>
<tr><td>1</td><td>Toyota motors</td><td>172,616.3</td><td>20.23</td><td>59.9</td></tr>
<tr><td>10</td><td>Tokyo Electric Power</td><td>46,962.7</td><td>10.20</td><td>48.8</td></tr>
<tr><td rowspan="3">China</td><th>Rank 2005</th><th>Company</th><th>Revenue ($ mn.)</th><th colspan="2">Indian rank one and ten as % of Chinese rank one and ten respectively</th></tr>
<tr><td>1</td><td>Sinopec</td><td>75,076.7</td><td colspan="2">46.52</td></tr>
<tr><td>10</td><td>China Construction Bank</td><td>19,047.9</td><td colspan="2">25.14</td></tr>
<tr><td rowspan="2">India</td><td>1</td><td>Indian Oil Corporation Limited</td><td>34,924.6</td><td colspan="2">-</td></tr>
<tr><td>10</td><td>Mangalore Refinery and Petrochemicals. Ltd.</td><td>4,788.4</td><td colspan="2">-</td></tr>
</table>

The topmost revenue earning company in the World, namely Wal-Mart with a revenue of $287,989 mn. is a US retailer. The tenth ranker in terms of revenue in the World is Total from France with a revenue of $152,609.5 mn. The tenth largest corporation in the US in terms of revenue is IBM. If Indian Oil Corporation (highest revenue in India) is compared with IBM; its revenues would be only one-third of IBM's. The Intel Corporation has revenues of $34,209 mn. and ranks fifty-second. That is precisely where Indian Oil Corporation would be ranked in America. Industries into retailing, petroleum, automobiles, banking and finance, insurance and computer equipments are capable of earning high revenues in the US. On the other hand, the Indian economy leverages upon the petroleum sector for generating most of its revenues.

India-Japan: The sheer size of volumes explain the wider global presence of Japanese companies as compared to Indian companies. The revenue generation of Japanese companies are also backed by their management philosophy of TQM, Kaizen, JIT, KAN-BAN, etc. Thus, Indian companies have to travel a long way to surpass their Japanese counterparts. This is evident from the fact that number one Indian company earns only seventy-five percent of the revenues of the number ten Japanese company.

The difference in revenues of Indian rank one (Indian Oil Corporation) and Japanese rank ten (Tokyo Electric Power) is $12,038.1 mn. Indian Oil Corporation would appear eleventh or twelfth if ranked in Japan. The Japanese economy showing its technological prowess earns the highest of its revenues from the automobiles and the electronics and electrical equipments sector. However, Japan's product orientation towards manufacturing is similar to that of India with only two companies among the top ten from the service sector. In terms of revenues, Japanese rank one - Toyota Motors is five times Indian rank one - Indian Oil. Similarly, Japanese rank ten - Tokyo Electric Power is ten times that of the Indian rank ten – Mangalore Refineries and Petroleum Limited.

India-China: The high volumes in revenues of Chinese companies are well supported by their efficient use of resources in the most demanding manner and mass production strategy to gain cost benefits. This results in unit cost productivity and consequent advantages with respect to pricing. Hence, mass production translates in to high sales. Though, Indian companies are not larger than Chinese companies they are not totally incomparable or as contrasting when compared with the US Inc. or Japan Inc. Revenue-wise Indian Oil Corporation would feature fourth in China. Heading it would be Sinopec (rank one), State Grid (rank two) and China National Petroleum (rank three) of China with revenues of $75,076.7 mn., $71,290.2 mn. and $67,723.8 mn. respectively. Indian Oil Corporation's revenues form approximately half (47%) of the revenues of Sinopec. China Construction Bank (Chinese rank ten) has revenues five times that of Mangalore Refineries and Petroleum Limited (India rank ten). The top revenue earning companies in China are mainly from petroleum, telecommunications and power. The manufacturing and the service sectors contribute equally to the top revenue earning companies in Japan.

US-Japan: The World's two biggest economies when compared give us the reasons why the US is ahead of Japan. Despite having all the management philosophy applied, Japan is able to get second place in the list of developed economies. The Japanese economy has emerged late, as compared to that of the US, and also is younger. Hence, the fact that the Japanese economy started building up in eighties and has achieved a faster growth rate to become the World's number-two economy is to be appreciated. This is also evident from the fact that number one Japanese company – Toyota Motors with a revenue of $172,616.3 mn. is equal to number four US company – Ford Motors with a revenue of $172,233 mn.

The top ten revenue companies in Japan are not as incomparable, as Indian companies, vis-à-vis the US. Top in Japan – Toyota Motors has revenues sixty percent of those of Wal-Mart. Tenth in Japan - Tokyo Electric Power has revenues approximately fifty percent of IBM. This is similar to the India-China comparison in terms of revenue of top ten companies, with Indian companies showing revenues as comparable to Chinese Companies.

Thus, in terms of revenues, India would appear after US, Japan and China. The scope for improvement in revenues is about eight to ten times, five to ten times and two to four times vis-à-vis the US, Japanese and Chinese companies respectively

Assets

World over services, namely banking and financial services take the lead in asset size. The larger the size of the assets, the greater is the difficulty in turning them around. This is one of the reasons why banks and financial institutions have a tough time getting asset turnovers above one. World over, Citibank leads the list of corporations top in assets. The same stands true for Citibank within the US.

India-US: The asset sizes of Indian companies are petite as compared to those of the US companies. Asset-wise the number one Indian company is four times smaller than number ten US company.

In terms of assets in India, State Bank of India is first with a reach to the nooks and corners of India and its international branches. However, when compared to the largest asset holder in the US i.e. Citigroup, it barely forms ten percent of the assets of Citigroup or thirty percent of the assets of the tenth-ranked Wachovia Corporation of the US. In fact, State Bank of India is the only company in terms of asset size in six figures of million-dollars in India. Incidentally, the second ranked Indian company i.e. ICICI Bank Limited is only twenty-eight percent of State Bank of India in terms of assets. Nine of the remaining top ten asset companies of India have asset sizes in five figures of million-dollars. The US has its first three companies in seven figures of million-dollars and the remaining seven companies in six figures of million-dollars.

Table 2

Country	Rank 2005	Company	Assets ($ mn.)	Indian rank one and ten as % of US rank one and ten respectively	
US	1	Citigroup	1,484,101.0	9.7	
	10	Wachovia Corp.	493,324.0	2.4	
Japan	**Rank 2005**	**Company**	**Assets ($ mn.)**	**Indian rank one and ten as % of Japanese rank one and ten respectively**	**Japanese rank one and ten as % of US rank one and ten respectively**
	1	Mizuho Financial Group	1,337,648.4	10.77	90.1
	10	Nippon Telegraph and Telephone	178,556.5	6.60	36.2
China	**Rank 2005**	**Company**	**Assets ($ mn.)**	**Indian rank one and ten as % of Chinese rank one and ten respectively**	
	1	Industrial and Commercial Bank of China	685,135.1	21.03	
	10	China Telecommunications	65,332.7	18.05	
India	1	State Bank Of India Limited	144,103.1	-	
	10	HDFC Bank Limited	11,790.2	-	

From the first to the tenth ranked companies in India, the asset sizes are within a minimum of 2.3% and a maximum of 9.7% of their respective US counterparts. The US profile of corporations top in assets is entirely service oriented whereas in case of India manufacturing companies also have assets comparable enough to appear among the top ten.

India-Japan: The asset sizes of Indian companies are pygmalion when compared to those of Japanese companies. The amount of capital investments made by Japanese companies are well supported by the volumes of revenues they generate. Also many Japanese companies are into providing services (among top ten companies in Japan, nine provide services and in case of India, six provide services) which requires a massive amount of capital expenditure especially in the domestic market. Although, Indian companies serve the World's second largest populated nation, a huge amount of capital expenditure is necessary to have an asset size comparable to Japanese companies. This is proved from the fact that number one Indian company has an asset size eighty percent of the number ten Japanese company.

Indian companies when evaluated vis-à-vis Japanese companies in terms of assets display a profile similar to that of the India-US comparison. The similarity of the figures between top ten Indian companies' assets as a percentage of their respective top ten US and top ten Japanese counterparts must be noticed. The minimum figures are 2.3% and 2.82% for US and Japan respectively. Similarly, the maximum figures are 9.7% and 10.77% for US and Japan respectively. Mizuho Financial Group and Mitsubishi Tokyo Financial Group are the top two companies in Japan with asset sizes in seven figures of million-dollars and remaining eight companies have assets in six figures of million-dollars. The asset size of the top Indian company is approximately ten percent of the top US Company and approximately eleven percent of the top Japanese company.

The difference between asset sizes of Indian rank one i.e. State Bank of India and Japanese rank ten i.e. Nippon Telegraph and Telephone is about $34,000 mn. State Bank would therefore appear either twelfth or thirteenth in terms of assets in Japan. The top ten asset companies in Japan also diversify into automobiles and telecommunications. The inclination towards services is slightly more with nine out of the top ten asset companies of Japan offering services.

India-China: In comparison to the companies top in assets in China, Bank of India (Indian fourth rank) with assets worth $21,802.4 mn. has the lowest percentage of assets vis-a-vis its counterpart China Construction Bank with assets worth $471,791.8 mn. (i.e. 4.62%). State Bank of India can comfortably position itself at fifth rank in China. Similarly, tenth ranked China Telecommunications can be comfortably positioned second in India. Among the top ten asset companies in China banking, power, petroleum and food and drugs companies maintain their presence.

US-Japan: Asset sizes of the top ten companies in the US and Japan are comparable; as against India's comparison with Japan and China, in terms of assets, which only displays how miniscule the assets of Indian companies are. The Japanese rank one is ninety percent of the US rank one. Japanese rank four is ninety-seven percent of the US rank four and Japanese rank ten is thirty-six percent of the US rank ten. Thus, Japanese rank one and four are close to the US rank one and four on account of assets respectively. The Japanese rank ten is wide off the mark at thirty-six percent of the US rank ten. In both cases a majority of companies are from the banking and insurance sector (five in case of US and eight in case of Japan).

Thus, in terms of assets, India would appear after the US, China and Japan. The scope for improvement in revenues is about ten to fifty times, five to sixteen times and five to six times vis-a-vis the US, Japanese and Chinese companies respectively.

Profits

As an excess of revenues over costs, this measure is considered a better performance indicator as compared to revenues. High revenues and high asset sizes are further followed by high profits in case of the US companies, which again dominate Indian companies. This is supported by the fact that number one Indian company is almost two and half times smaller than number ten US company in terms of profits.

Table 3					
Country	Rank 2005	Company	Profits ($ mn.)	Indian rank one and ten as % of US rank one and ten respectively	
US	1	Exxon Mobil	25,330.0	13.1	
	10	Johnson and Johnson	8,509.0	5.6	
Japan	Rank 2005	Company	Profits ($ mn.)	Indian rank one and ten as % of Japanese rank one and ten respectively	Japanese rank one and ten as % of US rank one and ten respectively
	1	Toyota motors	10,898.2	30.53	43.0
	10	Nippon Life Insurance	1,886.3	25.04	22.2
China	Rank 2005	Company	Profits ($ mn.)	Indian rank one and ten as % of Chinese rank one and ten respectively	
	1	China National Petroleum	8,757.1	37.99	
	10	China First Automotive Works	293.4	160.97	
India	1	ONGC	3,326.8	-	
	10	TCS Limited	472.3	-	

Table 3A				
	Rank 2005	Revenues	Assets	Profits
Indian rank one and ten % of US rank one and ten	1	12.13%	9.7%	13.1%
	10	4.97%	2.4%	5.6%

India-US: Among the top ten companies in terms of profits (refer to Table 3A) —

- For every $ 100 of assets of US companies, Indian companies are at the best 10% and at the lowest 2.4%;
- For every $ 100 of revenues of US companies, Indian companies are at the best 12.1% and at the lowest 4.9%; and
- For every $ 100 of profits of US companies, Indian companies are at the best 13.1% and at the lowest 5.6%.

Thus, the performance of Indian companies is at best in terms of profits.

Apart from the banking, petroleum and tobacco sectors in both countries, sectors such as pharmaceuticals, retailing and insurance in the US and sectors such as energy, steel and software in India are most profitable. The service sector in the US appears to be more profitable with four out of the top ten companies into services as compared to India with only two out of the top ten into services.

India-Japan: 'More revenues mean more profits' - this seems to be true with respect to Japan and India from the fact that six out of top ten revenue companies in Japan and seven out of top ten revenue companies in India head the list of companies top in profits. Further analysis depicts that the number one Indian company is equal to number six Japanese company in terms of profits i.e. Canon with profits of $ 3,175.3 mn. Thus, it can be said that profits are driven by revenues.

The Indian players when compared profit-wise with their Japanese counterparts can be termed as ‘below average. Among the top ten profit-making companies (refer to Table 3B) –

- For every $ 100 of assets of Japanese companies, Indian companies are at the best 10.8% and at the lowest 3.6%;
- For every $ 100 of revenues of Japanese companies, Indian companies are at the best 20.2% and at the lowest 8.9%; and
- For every $ 100 of profits of Japanese companies, Indian companies are at the best 30.5% and at the lowest 23.4%.

Table 3B				
Indian rank one and ten % of Japanese rank one and ten	**Rank 2005**	**Revenues**	**Assets**	**Profits**
	1	20.2%	10.8%	30.5%
	10	8.9%	3.6%	23.4%

Unlike three common high-profit sectors between US and India, banking is the only common sector between India and Japan. The Japanese further leverage upon expertise in automobiles along with telecommunications, computer equipment, power, metals and insurance. The service profile of Japan is similar to that of the US with only four companies from the service sector.

- **India-China:** Exceptional performance is displayed by the Indian rank ten (TCS) with profits 1.6 times that of the Chinese rank ten (China First Automotive Works). In fact, if Indian companies are compared profit wise to Chinese companies only the first nine companies in China are ahead of their Indian counterparts. From the tenth rank onwards, Indian companies accelerate ahead as shown in the table 4.

Table 4			**Indian rank 10 to 16 % of Chinese rank 10 to 16**
Ranks 2005	**Chinese Companies**	**Indian Companies**	
10	China First Automotive Works	TCS Ltd.	161.0
11	Induatrial and Commercial Bank Of China	Gail (India) Ltd.	167.5
12	Agricultural Bank Of China	Infosys Technologies Ltd.	179.2
13	China Southern Power Grid	ICICI Bank Ltd.	179.3
14	Sinochem	Wipro Ltd.	163.4
15	COFCO	Hindustan Petroleum Corp. Ltd.	267.3
16	China Life Insurance	Punjab National Bank	431.8

Petroleum, banking, steel and food and beverages are common sectors in both the countries which consist of the top profit making companies. Other than these, companies from telecommunications, power and automobiles sectors also make it among the top ten in Japan. The services profile of the top ten Chinese profit making companies is similar to the US and Japan with four of the top ten profit-making companies offering services.

US-Japan: 'More revenues mean more profits' seems true with six out of ten companies top in revenues in US and Japan appearing in top ten profit making companies in both countries. A picture similar to the comparison of India – Japan emerges when the top ten Japanese profit-making companies are compared with those of the US. The number one Japanese company – Toyota Motors displays the highest percentage of profit of its respective US counterpart - Exxon Mobil. Similarly, number eight Japanese company – Tokyo Electric has the minimum percentage of profit of its respective US counterpart – American International Group. Banking and Insurance seem to be two common sectors consisting of highly profitable companies.

Thus, in terms of profit also, India would appear after the US, Japan and China. The scope for improvement in profits is about eight to twenty times, three to four times and 0.3 to three times vis-a-vis the US, Japanese and Chinese companies respectively.

Profit Margin

Profit margin shows the extent of profitability of revenues. It displays marketing productivity (selling price per unit) and cost productivity (unit cost). Thus, a mere ranking by revenues or by profits is not an efficient indicator of judging performance. The utilization of economies of scale has a graphical pattern similar to that of the learning curve. The companies leveraging on economies of scale can do so only up to a limited extent, beyond which diseconomies of scale creep in. This 'extent' or 'limit' can be pushed further through the management style of the company. The moment the size of the organisation get large to such an extent that it is difficult to manage, diseconomies of scale creep in. It is at this point that the organisation can be divided into a strategic business unit (SBU) and the efficiency of such different units sum up the total efficiency of the organisation. This performance may be measured through profit margin, asset turnover and ROI.

A new picture emerges while comparing profit margins. Companies keeping a high margin are capable of earning high profits only if they have revenues large enough. A company with high margins and low revenues may not have a highly commendable bottom-line. Indian companies have high margins but the markets they cater to are smaller as compared to the US, Japan or China. The top US companies cater to markets that are capable of earning revenues that are ten to fifty times as compared to the markets Indian companies cater to. Similarly, top Japanese companies cater to markets that are five to ten times more revenue generating as compared to Indian companies. The Chinese cater to markets two to four times larger. It is therefore obvious to say that even with comparably low profit margins as compared to India, the US, Japan and China have their companies showing better bottom-lines. In terms of profit margin, revenues and assets of the number one and number ten companies are as follows:

Profit Margin – Table 5

Country	Rank 1	Rank 10
India	45.0%	26.5%
US	28.3%	20.7%
China	20.6%	5.9%
Japan	30.7%	1.6%

Table 6					
Country	**Rank**	**Company**	**Revenues ($ mn.)**	**Profits ($ mn.)**	**Profit Margin (%)**
US	1	U.S. Bancorp	14,705.7	4,166.8	28.33
	10	Wells Fargo	33,876.0	7,014.0	20.70
Japan	1	Mizuho Financial Group	28,278.7	5,837.6	20.64
	10	Nissan Motor	79,799.6	4,766.6	5.97
China	1	China Construction Bank	19,047.9	5,846.2	30.7
	10	Agricultural Bank of China	15,284.6	242.0	1.6
India	1	Mangalam Cement Ltd.	76.1	34.2	45.00
	10	Infosys Technologies Ltd.	1,634.5	433.7	26.50

India-US: As apparent from the table 6, the (high profits/high revenues) low margin driven companies are of the US whereas (low profits/low revenues) high margin driven companies are of India.

Banking, pharmaceuticals and telecommunications sectors contribute most to the top profit margin companies of the US whereas Indian companies are diversified into cement, shipping, mining, metals and software. Among the top ten profit margin companies, services in the US contribute more as against manufacturing in India.

Table 7		
Rank 2005	**Japanese Companies**	**Profit Margin (%)**
1	Mizuho Financial Group	20.64
2	Mitsubishi Tokyo Financial Group	12.87
3	Canon	9.90
4	KDDI	6.87
5	Central Japan Railway	6.82
6	Nippon Telegraph and Telephone	6.57
7	Nippon Steel	6.51
8	Kyushu Electric Power	6.34
9	Toyota motors	6.31
10	Nissan Motor	5.97

India-Japan: In case of Japan profit margins are low because of the large company size, market reach and high competition leading to price cutting measures that affect profits at the end. Also, the Japanese companies end up spending in Japanese Yen (valuable currency) whereas they earn in currencies that are comparably weaker.

In case of Japan the highest margins are of Mizuho Financial Group (20.64%) and second highest of Mitsubishi Tokyo Financial Group (12.87%). For the remaining eight companies the margins are between a minimum of six percent and the maximum of ten percent. The banking, telecommunications and automobiles sector constitute of most of the top companies in Japan followed by railroads, metals and power. Services sector in India as well as Japan constitutes four of the top ten profit margin companies.

India-China: With reference to table 6, the (high profits/high revenues) low margin driven nature is of Chinese companies whereas (low profits/low revenues) high margin driven nature is of Indian companies.

Among the top ten companies on account of profit margin, range of profit margin in India is 45% - 26% and China is 1.6% - 30.7%.

US-Japan: Comparably, profit margins are high in case of US companies and low in case of Japanese companies. Profit margin of the number one Japanese company is equal to the number ten US company.

Asset Turnover

Asset turnover denotes performance of sales vis-à-vis asset size. A large market capable of generating large revenues may give a turnover that is high if the company has a small asset size. In case if the asset size is also fairly large, the turnover would be less. The turnover figure must be viewed along with the revenues and assets figures of a company. High turnover figures by themselves do mean revenues much larger the assets but, the difference between sizes of assets and revenues of the companies being compared must also be noted.

Table 8

Country	**Rank**	**Company**	**Revenues ($ mn.)**	**Assets ($ mn.)**	**Asset Turnover**
US	1	Plains All American Pipelines	20,975.5	3,160.4	6.64
	10	Publix Super Markets	18,86.4	5,964.3	3.13
Japan	1	Mediceo Holdings	15,499.9	7,932.0	1.95
	10	Isuzu Motors	13,897.2	10,682.2	1.30
China	1	Sinochem	20,380.7	6,156.3	3.3
	10	China Life Insurance	24,980.6	69,351.7	0.4
India	1	HCL Infosystems Ltd.	1,784.4	345.2	5.2
	10	Nestle India Ltd.	544.0	230.9	2.4

India-US: The (high revenues/high asset size) high turnover driven companies are of the US whereas (low revenues/low asset size) low turnover driven companies are of India.

Indian companies are capable of attaining high turnovers but the sizes of revenues and assets are very small as compared to those of the US. Even though Indian companies have comparable turnovers, one can notice the performance difference by simply looking at the revenues and the assets. Petroleum, banking and pharmaceuticals consist of most companies among the top ten in the US. In the Indian case a majority are from the petroleum and steel sector. Among the top ten, services have a better turnover in the US.

India-Japan: There is an inverse relationship that exists between asset turnover and sizes of revenue and assets. In case of Japan (high revenues/high assets size) low asset turnovers can be seen whereas, in case of India (low revenues/low assets size) high asset turnover are noticed. The extent to which Indian companies are ahead of Japan with respect to asset turnover is evident from the fact that number one Japanese company is way behind the number ten Indian company in terms of asset turnover.

India-China: It becomes evident that (high profits/ high asset size) low turnover driven nature is of Chinese companies whereas (low profits/low asset base) high turnover driven nature is of Indian companies. The highest turnover in China is that of Sinochem at 3.3 times and at tenth rank is China Life Insurance at 0.4 times. In case of India and China with respect to the top fifteen companies in terms of asset turnover as the ranks in terms of asset turnover decrease, the difference in asset turnover increases

Trading, petroleum and power are the sectors which have most of the companies that have high asset turnovers among the top ten in China. The Indian services sector displays better performance among the top ten asset turnover companies in both countries.

Table 9	
Ranks	**Difference in asset turnover (India-China)**
1	1.86
2	1.46
3	2.12
4	2.20
5	1.96
6	1.97
7	1.97
8	2.04
9	2.13
10	2.00
11	2.02
12	2.10
13	2.25
14	2.22
15	2.20

US-Japan: The US top ten asset turnover companies are truly ahead when compared to the Japanese top ten. This is so because the Japanese top ten asset turnover companies have asset turnovers between 1.95 and 1.3 times. In case of the US, the turnover is between 6.64 and 3.13 times. Also, the revenues and asset sizes in both cases are not as incomparable as in the case of India – US. It can be hence said that performance wise on account of asset turnover ratio the US is ahead of Japan.

ROI

A company can strategise its ROI by deciding the strength of its profit margin and asset turnover. The companies that have been studied can be classified into nine combinations on the following basis:

Assuming 'm' is the profit margin – if m >18, High Margin; if m >7, Medium Margin; and if m <=7, Low margin. Assuming 'n' is the asset turnover – if n >5, High turnover; if n >3, Medium Turnover; and if n <=3, Low turnover. Thus, the nine combinations are:

i. High Margin-High Turnover
ii. High Margin-Medium Turnover
iii. High Margin-Low Turnover
iv. Medium Margin-High Turnover
v. Medium Margin-Medium Turnover
vi. Medium Margin-Low Turnover
vii. Low Margin-High Turnover
viii. Low Margin-Medium Turnover
ix. Low Margin-Low Turnover

India-US: In terms of ROI, Indian companies are ahead of their US counterparts. The US companies' ROI are in the range of thirteen percent to sixteen percent whereas it is twenty five percent to ninety percent for Indian companies. This is supported with the fact that among the top ten ROI companies of India the minimum ROI is of Glaxosmithkline Pharmaceuticals Limited at twenty-five percent and the maximum is of Managalam Cement Limited at ninety percent. Similarly, in case of the US the minimum ROI is of Nextel Communications at thirteen percent and the maximum ROI is of Johnson and Johnson at sixteen percent.

Table 10					Difference in ROI (India – US: rank-wise)
Rank 2005	US Companies	Profit Margin	Asset Turnover	ROI (%)	
1	Johnson and Johnson	Medium Margin	Low turnover	15.96	73.7
2	Intel	High Margin	Low turnover	15.61	29.4
3	Coco-Cola	High Margin	Low turnover	15.47	26.7
4	PepsiCo	Medium Margin	Low turnover	15.05	17.7
5	3M	Medium Margin	Low turnover	14.44	16.2
6	Chevron	Medium Margin	Low turnover	14.30	13.7
7	Anheuser-Busch	Medium Margin	Low turnover	13.85	12.2
8	Publix Super Markets	Low margin	Medium Turnover	13.74	11.6
9	Merck	High Margin	Low turnover	13.66	11.3
10	Nextel Communications	High Margin	Low turnover	13.19	11.7

The top ten ROI companies of the US constitute of medium margin – low turnover and high margin – low turnover companies in majority. Pharmaceuticals and food and beverages sectors contribute most of the top ROI companies. Services in India as well as the US are in a minority in the top ten ROI companies.

Table 11				
Rank 2005	Indian Companies	Profit Margin	Asset Turnover	ROI (%)
1	Mangalam Cement Ltd.	High Margin	Low turnover	89.61
2	Sesa Goa Ltd.	High Margin	Low turnover	44.96
3	TCS Ltd.	High Margin	Low turnover	42.12
4	Abbott India Ltd.	High Margin	Low turnover	32.78
5	Bongaigaon Refinery and Petrochemicals Ltd.	Medium Margin	Medium Turnover	30.63
6	Infosys Technologies Ltd.	High Margin	Low turnover	28.02
7	Aventis Pharmaceuticals Ltd.	High Margin	Low turnover	26.01
8	PandG Hygiene and Healthcare Ltd.	Medium Margin	Low turnover	25.37
9	Nestle India Ltd.	Medium Margin	Low turnover	25.00
10	Glaxosmithkline Pharmaceuticals Ltd.	High Margin	Low turnover	24.93

It can be seen that most Indian companies are high margin – low turnover companies. Pharmaceuticals and software have most of the high margin – low turnover companies.

India-Japan: The ROI culture of Japan appears to be different with most of their companies in the low margin – low turnover category. Hence, it is obvious so as to why the Japanese companies are not able to offer high ROI.

Table 12					Difference in ROI (India – Japan: rank-wise)	Difference in ROI (US – Japan: rank-wise)
Rank 2005	**Japanese Companies**	**Profit Margin**	**Asset Turnover**	**ROI (%)**		
1	Canon	Medium Margin	Low turnover	9.07	80.54	6.89
2	KDDI	Low margin	Low turnover	8.07	36.89	7.54
3	Yamaha Motor	Low margin	Low turnover	7.10	35.02	8.37
4	Nippon Steel	Low margin	Low turnover	5.67	27.11	9.38
5	Isuzu Motors	Low margin	Low turnover	5.23	25.40	9.21
6	Honda Motor	Low margin	Low turnover	5.19	22.83	9.11
7	Nissan Motor	Low margin	Low turnover	5.18	20.83	8.67
8	Nippon Yusen	Low margin	Low turnover	4.81	20.56	8.93
9	Toyota motors	Low margin	Low turnover	4.79	20.21	8.87
10	Denso	Low margin	Low turnover	4.75	20.18	8.44

The Japanese top ten ROI profile is again dominated by automobiles. Their low margin strategy makes their cars cheaper vis-à-vis competition.

India-China: Chinese companies have an ROI which is comparably small with respect to their Indian counterparts. This is evident from the fact that number one Chinese company has an ROI which is not even closer to the ROI of the number ten Indian company. Indian companies are high margin – high turnover driven companies whereas the Chinese strategise through low turnovers and medium and low margins. Telecommunications, petroleum and trading companies from a majority among the top ten ROI companies of China.

Table 13					Difference in ROI (India – China: rank-wise)
Rank 2005	**Chinese Companies**	**Profit Margin**	**Asset Turnover**	**ROI (%)**	
1	China National Petroleum	Medium Margin	Low turnover	7.9	81.71
2	China Mobile Communications	Medium Margin	Low turnover	7.2	37.76
3	Shanghai Baosteel Group	Medium Margin	Low turnover	6.6	35.52
4	Sinochem	Low margin	Medium Turnover	3.7	29.08
5	China Telecommunications	Medium Margin	Low turnover	3.7	26.93
6	Hutchinson Whampoa	Medium Margin	Low turnover	2.5	25.52
7	China First Automotive Works	Low margin	Low turnover	2.4	23.61
8	Sinopec	Low margin	Low turnover	1.7	23.67
9	COFCO	Low margin	Low turnover	1.7	23.30
10	China Construction Bank	High Margin	Low turnover	1.2	23.73

US-Japan: The ROI of the top ten US companies is between a maximum of sixteen percent and a minimum of thirteen percent whereas in case of Japan the ROI of the top ten companies is between a maximum of five percent and a minimum of nine percent. Thus, the difference between ROI of the tenth ranked and the first ranked company in both cases is a mere three to four percent respectively. Contrastingly, this difference in case of India is approximately sixty-five percent. This displays a similarity in the ability of providing returns prevailing among the top ROI companies in the two most developed nations - the US and Japan.

Conclusion

As far as indices are concerned India displays a satisfactory performance (refer table 14). However, if the criteria for comparison are further broken down into revenues, assets and profits, India falls back drastically. Indian companies certainly have a long way to go as can be seen clearly in table 15 and 16. The top in Japan, top in China and top in India as percentage of top in the US as of 2005 and similarly, top in Japan, top in China and the top in India as percentage of tenth in the US as of 2005 have been tabulated below (table 15 and table 16 respectively)

Table 14

Country	Profit Margin range	Asset Turnover range	ROI range
US 1 - 10	28.33% – 20.70%	6.64 – 3.13	15.96% – 13.19%
Japan 1 - 10	20.64% – 5.97%	1.95 –1.30	9.07% – 4.75%
China 1 - 10	30.70% – 1.60%	3.30 – 0.40	7.90% – 1.70%
India 1 - 10	**45.00% – 26.50%**	**5.20 – 2.40**	**89.61% – 24.93%**

Table 15 - Top in Japan, top in China and top in India as percentage of top in the US as of 2005

Country	Revenues	Assets	Profits
US 1	100	100	100
Japan 1	59.94%	90.13%	43.02%
China 1	26.07%	46.16%	34.57%
India 1	**12.13%**	**9.71%**	**13.13%**

Table 16 - Top in Japan, top in China and top in India as percentage of tenth in the US as of 2005

Country	Revenues	Assets	Profits
US 10	100	100	100
Japan 1	179.26%	271.15%	128.08%
China 1	77.96%	138.88%	102.92%
India 1	**36.27%**	**29.21%**	**39.10%**

The consolidation phase within various sectors of the Indian economy has begun thereby showing signs of maturity. Thus, the fact that Indian companies have potential can be seen. What matters is whether they can harness it, fast, to the extent required – to start with surpass China, Japan and then US in that order. This, if done strategically, could give India a global edge to feature among the top and that will be India miracle for vision 2020.

♦♦♦

Risk and Uncertainty

We often use uncertainty and risk interchangeably. But these terms have different meaning in economics.

Risk is the possibility of loss. Suppose you buy any share at a price your risk is that the price may come down after you buy the stock.

Uncertainty does not always involve losses. Suppose you are asked whether the Reserve Bank of India will cut interest rates. You cannot answer the question based on RBI's past decisions. The reason is that interest rate changes are a function of several variables, many of which are uncertain.

Another difference is that risk is measurable. Based on the historical price movement, you may conclude that share price will decline by not more than 20 per cent in one month.Uncertainty is subjective and cannot be measured.

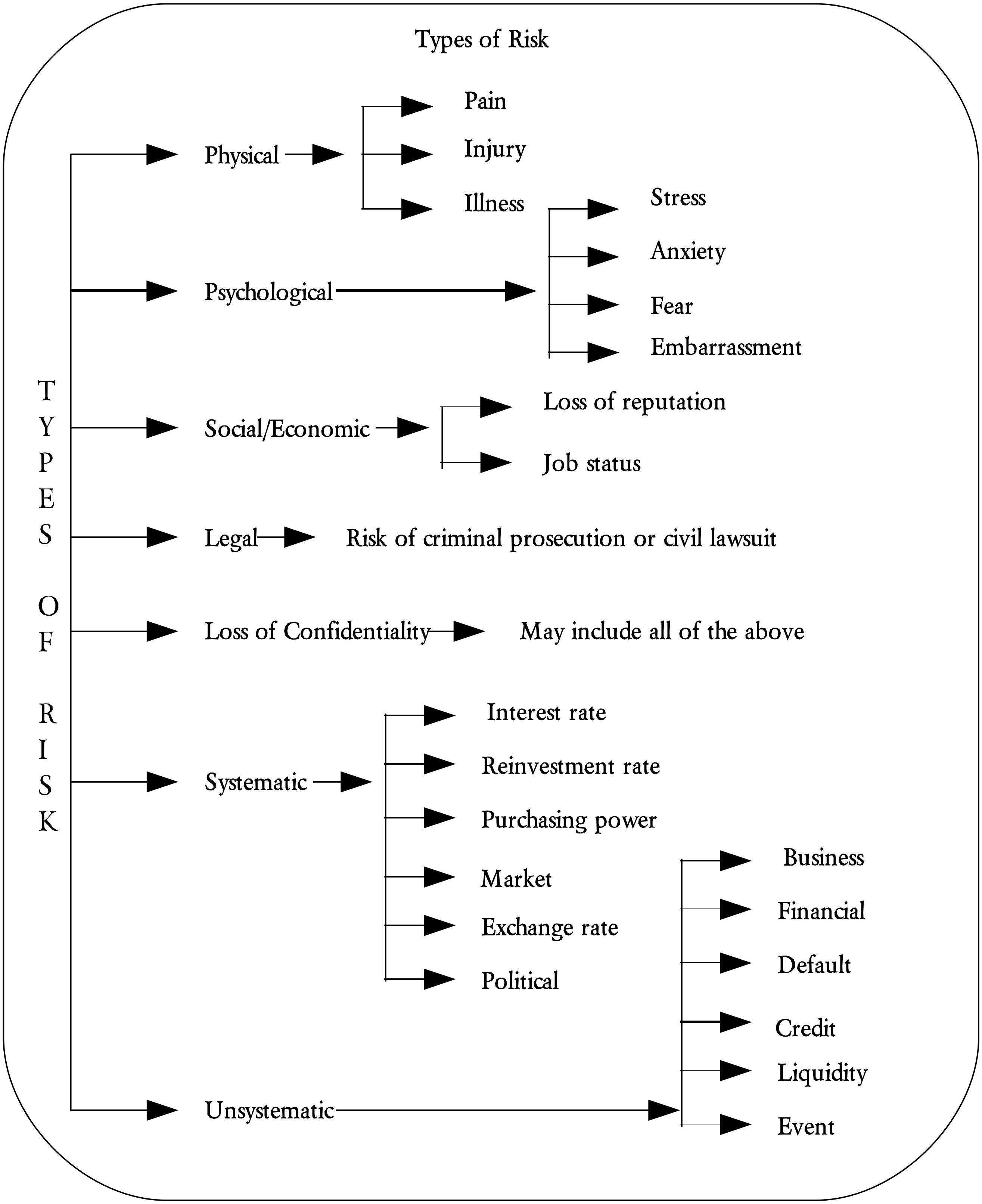
Uncertainty can reduce investment risk, too. Suppose you buy February 600 calls on Reliance Industries. If the stock were to move between Rs 590 and Rs 600, your call option may not be profitable. Why?

The market may perceive that the stock movement is not uncertain enough for the call option to be valuable. Now, suppose the stock swings between Rs 565 and Rs 625, the wild swing in the stock price will lead to more uncertainty in the future price movements. The option may become valuable to the buyer.

Note that the wild swing in the stock price increases uncertainty but reduces risk for the option holder.

There are times when uncertainty helps us reduce risk!

Suppose you have a predictable pattern when you play a card game. Your opponent can guess your moves. You could, hence, lose money that you bet on the game. If you randomly change your playing style, the uncertainty in your strategy will keep your opponents guessing. That lowers your risk of losing money!



Compilation by Sandeep Bhavsar and Dr. VN BRIMS PGDBM-II (2005-06) Students from the archives of Dr. Guruprasad Murthy

Strategic Risk Management

By Dr. Vishnu Kanhere

"For respect to future periods, we are forced to deal with highly certain and merely conjectural date. Under these circumstances, it is not only easily understandable but even, from the economic stand-point, commendable that most people do not attempt to repeat, for case after case and for year after year, the tedious and at the same tome, deceptive calculation of the claims of present and future."

– Eugene Von Bohm-Bawerk

"Risk refers to a situation where the probability of an outcome could be determined, and therefore, the outcome could be insured against. Uncertainty, by contrast, referred to an event whose probability could not be known."

– Frank Hyneman Knight (1885-1972)

Managing Risk

Over the years risk management as a discipline has moved from a technical to a strategic level and has increasingly grown in importance and significance.

This is primarily due to the increasing risk involved in today's world, the shorter fuse wire of decisions; the global cascading impact of actions.

Risk arises due to imperfect knowledge stemming from lack of complete/perfect information about certain facts and events on the one hand and the uncertainty/unpredictability of results of specific inputs and actions, on the other. Risk is contextual and its impact varies depending on the underlying situation and ground realities obtaining in a given situation. It also increases if you are dealing with third party assets.

Risk is also determined by actions and moves of the associate and/or adversary, for example, in a zero sum or similar game.

If both blame each other both suffer a sentence but for a shorter term.

Though logically it is best to cooperate, since the prisoner is not sure if the other one will get greedy, they settle blaming the other, just to be on the safe side and minimize potential risk/loss.

While the risk arising from deficient information can be mitigated/reduced by gaining more information albeit at a cost, the risk arising from uncertain outcomes can only be controlled to some extent either by developing better mechanism at predicting these outcomes or better still by controlling the outcomes as much as possible/feasible.

Both courses of action have an associated cost. The manager has to develop a strategy that ensures that the returns always exceed the cost of risk mitigation.

What is risk?

Risk is a word of many meanings. It means different things to different people. It is an issue, which touches our lives every day, every moment. It transcends from small risks like whether your will be caught in the rain without an umbrella to a major risk like a car crash where you are not using seat belts.

"Risk is an issue that could impact (may be, impair) your ability to meet your objectives".

- Risk occurs when there is an event with more than one possible outcome with consequences in either direction – desirable/undesirable.
- Each outcome has an associated frequency or probability of occurring depending on the circumstances. In fact as Murphy's famous law goes – "If anything can go wrong it will"

Though the occurrence of risk is probabilistic, it is a fact of life, which we have to live with.

One man's risk is another's gain. We have all learnt the idiom - The early bird catches the worm. But the flip side is that, the early worm gets caught, so it is for you to decide in a given situation whether you are the bird, or the worm and then decide to be early or not. We also have been told - The smart fish gets the worm. But here again, the worm could be fixed to bait and the so-called smart fish that catches the worm would end up on someone's dinner plate.

Why is risk becoming so important today?

Risk has been with us since the beginning of the human race. Why is it that addressing, comprehending, analyzing and managing it has become so important today. The most important reason for the increased importance of risk in our lives is that we have now started appreciating the fact that uncertainty and the resultant negative impact of risk are growing with globalisation. Risk is becoming more important than ever before because changes are so rapid and all pervasive that it requires preparedness and quick reflexes to launch pre-emptive moves to counter emerging, altered, scenarios. Let us look at some of the major factors that have made risk so important today

Legislation is becoming tougher

a) Legislation is now more extensive – from compensation to environmental laws, third party liability to PIL's, Public laws granting compensation for corporate wrongs are becoming stricter.

b) Legislation is more stringent – Corporate Governance – Naresh Chandra Committee – Sarbannes Oxley Act, the list is growing everyday.

c) Risk assessment is necessary to avert legal liability – esp. in areas of health and safety.

Insurance is more expensive and difficult to obtain

a) Insurance is no longer the cheap option

b) Open ended cover is not widely available

c) Insurance Companies expect and require clients to manage risks on their own and do not offer a blanket cover any longer.

d) Insurance does not recoup full loss even if the claim is accepted by the insurer.

e) Insurance payouts are slow and difficult to obtain

f) Many risks are not covered more specifically intangibles like loss of goodwill/reputation

g) Insurance ultimately is reactive and not a proactive way of mitigating risk.

Customer – Attitudes

a) Corporate clients want to pass on risks to suppliers and service providers and want to de-risk their own business.

b) Consumers are more aware and this has led to greater litigation and claims

c) Stockholders are more aware of risks – affecting business value and therefore increased risk reflects in lower stock values and vice-versa.

Public Awareness

a) People/society at large expects higher standards of probity in corporate behavior, which means that companies have to manage risk in a better way than in the past.

Management Attitudes

a) Management is wiser, from past incidents and wants risk management practices in place.

b) Professional and proactive managements promote risk management.

c) With the advent of Global Corporations, Risk has become internationalized. Corporations face, global worries and short fuse wire of decisions have a greater impact on corporate bottom lines.

d) Privatization – High-risk infrastructure sectors are now in the business domain leading to greater understanding and provisioning for business risks.

Types of Risk

Risk is contingent on a number of factors. An event, action, happening or outcome, which in one situation is perfectly normal or insignificant, can in a different setting be a cause of grave risk. It comes in different shapes and sizes and is different for different people in different situations. Typically, risks have been classified in many ways and are of different types. The list is seemingly endless and takes on that shade of meaning and colour as the objective in looking at it.

Risk Appreciation

Human beings appreciate and understand risk in two ways and respond to it also in two basic ways. We appreciate risk logically, systematically and analytically or by instinct and gut feel.

Both approaches used individually have their shortcomings and flaws. But used in combination work best. Tempering logic with gut feel and reasoned hunches work better.

Before we look at strategic risk management in the management's perspective, it is worth noting the two types of responses to risk. There are two basic types – Risk averters and Risk takers.

Those averse to risk tend to try and minimize it to maximize value.

Those who are Risk takers don't mind taking risks to make gains (and of course bear losses).

At lower levels of stakes the difference between the two approaches and options does not seem very significant but this difference in approach makes a considerable difference when the stakes are high. You are offered a lottery ticket where you pay Rs. 10 with a 10% chance of winning Rs. 100. You will probably be indifferent to buying it. What if the investment is Rs. 1,000,000 and the pay off 10,000,000 with a 10% chance of success? It will surely not be the same.

The decision will depend on your attitude to risk as well as your "Risk appetite". How much risk can you stomach?

Genesis of Risk

Risk originates from vulnerabilities and threats and results in an adverse impact when it occurs. It is a function of threats, vulnerabilities and their impact. Vulnerabilities produce weaknesses that increase risk. Threats are external adverse factors that have a chance of occurrence. Greater the threat, greater the risk. The impact is the adverse consequences and damages that can flow from the materializing of the threat. The greater the impact, the higher the risk. Thus minimizing the chance of threat materializing, reducing vulnerabilities and minimizing the damage of impact helps to mitigate risks.

Though in looking at all these, one cannot lose sight of selecting the right approach and the correct perspective. If one addresses risk with preconceived notions about its probable causes it can lead to disastrous results as the real threat often lies elsewhere.

A Bank which builds a strong security system and spends substantial money on protecting itself from an external threat of robbery or dacoity often ignores that it could eventually turn out to be an insider job and by not paying enough attention in screening and monitoring its employees it exposes itself to avoidable risk, losing substantial money in the bargain. It ends up spending on security, which goes waste and also loses money over and above due to insider abuse, which it is unable to prevent.

Strategic Risk Management

- Risk management is the process by which executive management, under board supervision, identifies the risk arising from the business…and establishes the priorities for control and particular objectives. ………. The Cadbury Report, 1992.
- There is still no general agreement on where the boundaries of the subject lie, and a satisfactory definition of Risk Management is notoriously difficult to formulate... For practical purposes, therefore, the emphasis of risk management tends to be on risk awareness, assessment and mitigation
- Risk Management consists, basically, in altering in a desirable manner the states a system may reach and their probabilities or manage their consequences.

The Road Map to risk management can be summed up below:

- Risk Analysis and Assessment
- Awareness
- Assessment - Monitor threats, Assess Vulnerabilities, Estimate impact.
- Prioritization – Analysis into acceptable, unacceptable and middle of the road risks.
- Prevention.
- Planning for the future
- Risk Mitigation
- Prevention of occurrence of Threats

- Strengthening the system against Vulnerabilities
- Minimizing the Impact of damage.

What then are the Requirements for Successful Risk Management?

- Management must be aware of the hazards and their impact on the business, and how they could be avoided, prevented and reduced.
- There must be appropriate facilities and equipment.
- There must be appropriate systems and procedures, including monitoring and auditing performance.
- There must be an appropriate organisation, sufficient level of competence, with suitable communication and training arrangements
- There must be appropriate arrangements for detecting and handling emergency situations
- Risk Management must be actively and continuously promoted throughout the organisation.

The Tools, which can be used for effective risk management, are:

- Control
- Insurance
- Loss Prevention
- Technological Innovation
- Learning, Information, Distribution
- Robustness.

The Mantra for success thus seems to be to Bear, Share and Insure.

Bear what you can yourself, given your risk appetite.

Share risk within the industry by creating risk sharing and averting mechanisms and finally insure what cannot be controlled and pass on the risk to insurers.

Monitoring and Planning for the future involves a continuous process to adopt a Plan, Do, Check and Act cycle, in order to de-risk your business to the extent possible.

Risk Management in the present day is summarized below:

Managing risks the proactive way

The Right Corporate strategy: This involves creating and putting in place proper Ownership structure, carrying on your business on sound premises based on de-risking the processes and following Risk policies which minimize exposure to uncertainties.

Managing people

Managing people is another way of managing business risks. This involves -

- ➔ Setting standards from the top
- ➔ Quick adaptation to change
- ➔ Balance and experience – multi tasking employees, and
- ➔ Allocate responsibility for risk management

Manage processes: This is the nuts and bolts of risk management and involves developing and putting in place Sound Policies, Best Practices, Adequate Procedures, Easy to implement Guidelines, Sufficient Documentation, Drills, Safer Solutions, Isolation of threats and Active protection of assets

Spread the Risk

The next step in managing risk in a proactive way is to spread it by, Outsourced processes, shared risks, spreading risks using hedging option, swaps and derivatives.

Insure against risk

What cannot be controlled or shared is protected by taking intelligent insurance cover.

Disaster Recovery Planning – Business Continuity Planning

Finally DRP-BCP is the last resort to minimize the effects of the damage caused due to the adverse impact of threats materializing into reality.

What then is effective Risk Management?

- Continuous Risk Management (CRM) is a structured management practice with processes, methods, and tools for managing risks in support of project or program's goals.

- CRM provides a disciplined environment for proactive decision making to:
  - assess continually what could go wrong (risks)
  - determine which risks are most important to deal with
  - implement strategies to deal with those risks
  - measure and assure effectiveness of the implemented strategies

The Risk Management Framework used in CRM can be summarized below:

Formulation

- Develop Risk Management Plan
- Perform risk assessment during systems analysis sub-process
- Establish an initial set of risks (simplest technique is brainstorming)
- RM plan and risk profile evaluated and base-lined in evaluation sub-process

Implementation

- Implement risk management process defined in the plan
- Implement risk tracking system
- Use risk management continuously to control and mitigate risks
- Use risk assessment to identify and analyze risks

The effective use and implementation of CRM results in a paradigm shift in the way businesses plan, implement and operate.

Key issues

What then are the key issues in strategic risk management today?

1) Risk management at what cost?
2) Risk vs. Returns
3) Risk – Stability - Change Change as a risk management tool
4) Environmental issues – Union Carbide is a classic example of what can go wrong.
5) Health and Safety – Pepsi/Coke episode of unacceptable levels of pesticides and its impact on their sales is a case in point
6) Maintaining Security – 9/11 is the most glaring example which comes to mind
7) Pre-empting Fraud – ENRON sums it up all
8) Staying financially healthy – PSU's, dotcoms and once again Enron gives us food for thought.
9) Special Risks: IT Risks, Financial Risks, Business Risks, People Risks pose special risks which need specialist advice and action
10) Contingency Planning and Crisis Management. Management error or external change, lead to crisis. In the event of a crisis, inaction leads to failure. Recognizing the crisis, taking prompt action and effecting change leads to survival and improvement

In fact in today's competitive world one can say that corporations gain market leadership through risk management.

Final word

A final word of caution! We come across a number of quantitative models including sophisticated software tools for managing risks. Essentially they attempt to forecast uncertainties and extrapolate likely cash flows and losses. Simulation techniques are also used to understand how individual risk sources contribute to a company's consolidated risk and also judge the Company's appetite for risk. The competing insurance options are also evaluated using statistical techniques and present value analysis.

But what one has to clearly bear in mind is that the apparent sophistication of quantitative risk assessment can conceal critical and dubious assumptions and seriously impair and invalidate the assessed magnitude of risk. Any quantitative assessment of risk should be accompanied by a non-quantitative descriptive assessment also. "Decision making starts where Formulae end". As a wag has remarked, "There was only a 5% chance of the bank failing, but when it did fail I didn't lose just 5% of my money, I lost all of it."

Worst ways to manage risks

- Worrying about the outcome never controls/ mitigates risk — stop worrying.
- Take steps to insure a positive outcome, do what is possible to mitigate risk and then stop worrying about a negative outcome.

- Work out the maximum loss on a negative outcome, understand it and then move on.
- Do not go in for irrelevant detail or keep double checking, confirm once and more on.
- Don't postpone activities, that way uncertainties just multiply meet challenges headlong and eliminate the uncertainity rest of the time.
- Learn to judge when to stop preparing, beyond a point preparation is a waste if you cant put into practice.
- Finally learn to accept what you can never decipher, learn about or predict. There is a limit to what you are able to know, understand and control.

The Need of the Hour then is to convert Vulnerabilities and Weaknesses into Strengths and use Threats as opportunities for change.

Managing risks is all about managing change.

It is only by using this proactive approach will firms move up the learning curve and be successful in the long run.

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Prisoners' Dilemma

The game known as the Prisoners' Dilemma got its name from the following hypothetical situation: imagine two criminals arrested under the suspicion of having committed a crime together. However, the police do not have sufficient proof in order to have them convicted. The two prisoners are isolated from each other, and the police visit each of them and offer a deal: the one who offers evidence against the other one will be freed. If none of them accepts the offer, they are in fact cooperating against the police, and both of them will get only a small punishment because of lack of proof. They both gain. However, if one of them betrays the other one, by confessing to the police, the defector will gain more, since he is freed; the one who remained silent, on the other hand, will receive the full punishment, since he did not help the police, and there is sufficient proof. If both betray, both will be punished, but less severely than if they had refused to talk. The dilemma resides in the fact that each prisoner has a choice between only two options, but cannot make a good decision without knowing what the other one will do.

The problem with the prisoner's dilemma is that if both decision-makers were purely rational, they would never cooperate. Indeed, rational decision-making means that you make the decision which is best for you whatever the other actor chooses. Suppose the other one would defect, then it is rational to defect yourself: you won't gain anything, but if you do not defect you will be stuck with a loss by way of being punished when the other goes scot free. Suppose the other one would cooperate, then you will gain anyway, but you will gain more if you do not cooperate, so here too the rational choice is to defect. The problem is that if both actors are rational, both will decide to defect, and none of them will gain anything. However, if both would "irrationally" decide to cooperate, both would gain by being let off with minimum penalty.

Thus this well known game representing the Prisoner's Dilemma – "If both prisoners cooperate (do not blame each other) they both benefit each being let off. However if one blames the other and the other cooperates (does not blame the first) then the blamer is let off and the one who cooperates gets arrested for a long term and vice versa.

Valuation - Types of Value

Extract from PhD Thesis of Dr. Vishnu Kanhere

Definition of Types of Value

The different types of value are also alternately referred to as standards or definitions of value. These refer to the type of value being arrived at.

The value being essentially an estimate arrived at on the basis of a forecast (using different parameters and estimation tools) depends on the objective, purpose and approach of the valuer. Thus take the example of a common used inkjet printer. Its value in the eyes of the reseller will differ from that of a user and will be much different from the value perceived by a scrap dealer.

The types of value thus depend to a great extent on who wants to look at the value and for what purpose. Thus there can be as many types/shades of value as the different people/players involved in the valuation exercise.

a) Book value

It is also known as the book cost. It shows the original investment on the asset including cost of additions and major alterations thereto after making due provision for depreciation in respect of the period passed/elapsed.

Book value thus represents the actual book cost and is not affected by market conditions but only by the depreciation provided per year.

b) Assessed value

The value of an asset recorded for the purposes of levying taxes or determining the duties or other charges to be levied in relation to its value by the Central/State Government/Local Authority (e.g. value assessed/determined for Customs Duty, Sales tax, Excise, Octroi, etc.)

c) Salvage value

When an asset/property has reached the end of its utility period/useful life but it has not become useless and is sold as it is without being broken into pieces/scrapped as junk, the net amount realised net of cost of removal and sale is the salvage value of the property/asset.

Types of Value – A Profile

Book value
Assessed value
Salvage value
Scrap / junk value
Distress/forced value
Market value
Monopoly value
Potential value
Replacement value
Sentimental value
Speculative value
Bargain value
Snob value
Fair market value
Joint value
Relative value
Brand value
Application value
Customer value
Owner value
Investor value
Mortgage value
Insurance value
Opportunity value
Option value

d) Scrap value/Junk value

The value of an asset/property realised at the end of its period of usefulness when it has become absolutely useless except for sale as junk, is broken up into components/parts and these are individually sold as scrap/junk or the whole item sold on as is basis which is subsequently broken up by the purchaser.

(e) Distress value/Forced value

An asset is sold at distress value when it fetches a price lower than the market value. Such a situation arises when there is a pressing/desperate need/urgent necessity on the part of the owner/seller to sell the asset.

This can develop due to a variety of factors such as:-

(i) Fear of adverse situation where possession and ownership of the asset may prove risky, damaging, cumbersome, illegal, difficult or onerous., e.g.

- fear of war, riots, earthquakes etc.
- financial difficulties of seller
- risk of obsolescence and severe damage

(ii) A desire/or intention to favour the purchaser for extraneous considerations not reflected in the price.

(iii) Compulsory/forced acquisition of property by governmental or other external agency/entity under threat, coercion or under statute.

f) Acquisition value –

Acquisition value is the price which a willing buyer might reasonably expect to have to pay to a willing seller for acquiring a product. It is the reflection/mirror image of the market value in a perfectly competitive market.

g) Market value

The market value is the price, which a willing vendor might reasonably expect to obtain from a willing purchaser and one which a willing buyer might reasonably expect to pay to a willing seller.

Thus market value will be the fair and reasonable sum of money which a willing wise buyer buying without any restriction or necessity or any physical, sentimental or mental influence, gives for a particular asset, in its existing condition with all rights and interests, advantages and disadvantages, to an offering willing wise seller who sells without any restriction or necessity or any physical, sentimental or mental reason on the date on which the value is to be ascertained. The reference to wise for both the buyer and seller indicate that they have reasonably good knowledge and awareness of the market conditions.

h) Monopoly value

In certain cases the seller of an asset is in a commanding, unique position either due to the exclusivity of the asset/and/or due to the association/relation with another related asset (a joint product/asset)

Under such circumstances the buyer has no choice but to acquire the particular one being offered by/available with the seller and has no other option/choice.

This can happen either because:-

An asset available with the buyer/owned by the buyer cannot be put to use without acquiring the asset belonging to and being offered by the seller, and the seller is the only source of acquiring that asset e.g. A monopoly situation can develop in the supply of hardware, software and accessories which use a similar/common platform and are only compatible with each other.

i) Potential value

The term potential value of an asset is used to indicate the value which it will attain/yield when developed/utilised in the most advantageous manner and indicates the potential of that asset in monetary terms.

j) Replacement value

The cost which will be incurred for replacement of the asset as on date at the prevailing market rates in the given state/condition is the replacement cost of the asset. It is the expenditure which will have to be incurred to bring into existence the asset in its present condition at current market rates.

k) Sentimental value

Sometimes some sentiment or feeling is attached to the asset or class or type of asset and because of such feeling the owner of the asset is not ready to sell it even at a fancy price, and/or a person who desires to possess it, is ready to pay a fancy price for it. Such a price is the sentimental value and it has no relation with the market value.

l) Speculative value

Certain purchasers who may or may not be a part of the distribution chain, nor are end users, are interested not in utilising or developing the assets but in acquiring the same for selling them at a profit at a later date (i.e. for speculation). The price paid by such purchasers is the speculative value of the asset and generally tends to be lower than the market value though in imperfect markets and in the short run such price may be much higher than the normal market price. Speculators are generally active where they anticipate shortages in supply, a sudden increase in future demand, market imbalances etc.

m) Bargain value

When a certain asset is being offered for sale at a value perceptibly lower than the ordinary market price and the buyer stands to benefit from the same, it is called as Bargain Value. A bargain sale value may be offered as a sales promotion to introduce and popularise a product or may be a result of a forced/distress sale, or may be a method to dispose off soiled, partly damaged seconds or slow moving stocks etc.

n) Snob value

The possession and ownership of certain exclusive assets which are not very common due to their relatively high cost and low availability may due to this about them, come to possess a value much more than the normal market value which can be termed as "Snob Value".

o) Fair market value/Open market price

These are two sides of the same coin and more or less related and similar.

An open market envisages that the asset is offered for sale in such a manner that every person who desires to purchase the same can make an offer i.e. the market itself is not restricted and market information about the product and seller is widely and openly disseminated and made available.

The price of an asset prevailing in such a market will be the open market price and which will also be the fair market price when transactions take place in such a free/open market between a willing buyer and a willing seller.

Fair market price is a reasoned honest estimate of what a knowledgeable unbiased willing buyer will pay to a knowledgeable unbiased willing seller for the asset under open market conditions.

p) Joint value (of joint products)

There are certain assets/products which are used/utilised as joint products i.e. one cannot generally be used in isolation without the other to get the most satisfactory result e.g. a computer and operating system software, computer and printer, tooth brush and tooth paste, shoes and socks etc. In such cases depending on the ratio of use i.e. 1:1 or 1:5 etc., a pricing strategy is adopted whereby the prices of the two products are adjusted to take advantage of their internal dependence necessitating a joint user, to maximise returns. In such situations where assets/products are priced jointly together and not in isolation/independently the same are said to possess Joint Value.

q) Relative value (between commodities/situations)

The value possessed by an asset is not absolute and is dependent on a number of factors and thus is a relative concept.

The concept of relative value when applied between commodities looks at a situation where alternatives/alternate products exist in the market whose price/value affects and has an impact on the value of the asset/product in question.

Relative value between situations understands the effect of different market conditions and situations on the price of an asset/product. This impact may be of market forces both on the demand and supply side, impact of external factors and conditions like state of the economy or it could be product related like level of technological development and extent of obsolescence etc.

r) Brand value

The value attached or associated to a Brand name, which when affixed on an asset/product gives an assurance of quality, genuineness and reliability. The backing of a reputed, well known, widely accepted organisation also imparts added value to the product.

Thus a branded product which is perceived as representing a genuine, quality product, possesses greater value than a similar product which does not enjoy or possess that brand.

Further a product gets enhanced brand value, also due to brand loyalty built up through customer satisfaction, advertisements and image over the years.

s) Application value

Especially when assets and products are made for specific use, not only their characteristics, but even their value is affected by the nature of use and purpose for which they are used. Thus the user/application of the asset/product drives and influences not just its contents, properties and characteristics but also its price and value. This is especially applicable to tailor made assets and products where value in use tends to influence the value of the asset product.

We have looked at value from the view point of an exchange of the asset/product in question involving a change of hands in a market situation. There are types of value which do not envisage an outright transfer/sale but may be for other purposes.

t) Value to the owner/user.: It is the value of an asset given the current use to which it has been put by the owner/user.

u) Value to the investor: In modern times, people hold assets as an investment either for a steady return or passively for capital appreciation by disposal at a future date. The value of an asset in such circumstances is the `Value to the Investor'.

v) Value for financing/hypothecation/ mortgage.

It is a value of an asset in the eyes of a lender as a security to secure return of the loan/funds with or without interest advanced against its hypothecation/mortgage.

w) Value for insurance:

It is the value adopted for insuring an asset – generally synonymous with replacement cost with adequate compensation for loss of returns/profits built in. It is important to note at this stage that the appropriate type of value to be selected will depend largely on the purpose/objective of the valuation and the ultimate valuation will depend on the type of value applied.

If the first computer ever produced was available for sale as scrap/junk its value would be probably a few dollars, but as an antique (snob value) it can be in thousands of dollars.

Thus for the same asset the scrap/junk value will be at the lowest end of the spectrum and the snob value at the highest end of the spectrum of values, with all the other types of value falling between the two.

Before we conclude the discussion on 'value' we should note the existence of customer value* which is slightly different from the concepts discussed earlier.

x) Customer (delivered) value

It is the difference between total customer value and total customer cost. Total customer value is the bundle of benefits customers expect from a given product or service. Total customer cost is the bundle of costs customers expect to incur in evaluating, obtaining and using the product or service.

A customer considers the values he receives from four sources – product, services, personnel and usage. He compares this with the total customer cost, which in addition to monetary cost, includes the buyer's time, energy and psychic costs expended in the process of acquiring and using the product/service.

y) Opportunity value

Opportunity value represents the monetary value of benefits forgone by pursuing one course of action over another. It can also be expressed as the loss in revenue/inflow for the alternative that is foregone.

The opportunity value of buying and deploying a Linux operating system in your computer is that it is difficult to source and acquire reliable software programmes for day to day use which are compatible with Linux from the market vis a vis other commercially available operating systems. This extra efforts/cost can be expressed in monetary terms and represents the opportunity value (cost) of going in for Linux in lieu of other operating system.

Z) Option value

Value of an asset based on the possible benefits arising from the exercise or otherwise, of an option in future based on circumstances prevailing at that point of time.

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* *Philip Kotler, Marketing Management – Analysis, Planning, Implementation and Control, Prentice Hall, 1998, p. 38-40.*

Valuation is Subjective

Lessons from BOLLYWOOD

Deewar

Scenario – I

<u>Sapru to Amitabh Bachhan (Mr.Vijay)</u>: Mr.Vijay, now the deal is over, if you dont feel bad may I say something? you do not know how to do business. You have paid a high price for this building. If you had bargained and requested for a reduction I would have reduced the price by Rs.1 or Rs.2 lacs

<u>AB to Sapru</u>: Shall I say something? In fact you do not know how to do business. Even if you had asked for Rs.10 lacs more I would have paid.

<u>Sapru to AB</u>: What is so great about this building?

<u>AB to Sapru</u>: 20 years back when the building was under construction my mother has set the bricks for this building. Today I am gifting this building to my mother.

Scenario – II

<u>AB to Shashi Kapoor</u>: If you wish to go you may. However, mother will not go.

<u>Mother to AB</u>: I will go

__AB to mother__: No, mother you can't go because you love me very much.

__AB to mother__: I am doing everything for you. All the wealth I have accumulated is for you

__Mother to AB__: Shall I say something? Dont try to purchase your mother, you have not become so rich as yet, to purchase your mother.

Raveena Tandon

“I would not equate motherhood with money” says Raveena Tandon bollywood actress

“I wouldn't equate motherhood with money. Being a mother is the best role I have played. Seeing my daughter take her first step, seeing her first tooth grow is priceless.”

“Acting is not the be all and end all of my life so there is no question of sacrificing anything to raise my daughter.”

Source: Times of India, 6th May, 2006.

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Financial Derivatives

Shankar Kanhere

What are derivatives?

Derivatives are a broad set of instruments whose values depend on some underlying basic assets and variables. These instruments do not have tangible worth of their own but rather derive their value from the claim they give their owners to own some other assets or security. The underlying asset can be equity (Shares), exchange rate (Currency), interest rate, commodity or any other asset. For example, grain farmers may wish to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction would take place through a forward or futures market. This market is the "derivative market", and the prices of this market would be driven by the spot market price of the grain, which is the "underlying" asset. The terms of "contracts" or "products" are often applied to denote the specific traded instruments.

The Legal Definition

The Securities Contracts (Regulation) Act, 1956 (SC(R)A) which governs the trading of derivatives in India, defines "derivative" to include:

- A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other from of security.
- A contract which derives its value from the prices, or index of prices, of underlying securities.

Drivers of Financial Derivatives

Over the last three decades, the derivatives market has seen a phenomenal growth. A large variety of derivative contracts have been launched at exchanges across the world. Some of the factors driving the growth of financial derivatives world over are:

- Increased volatility in asset prices in Financial markets;
- Increased integration of national financial markets with the international markets;
- Significant improvement in communication facilities and coincident decline in their costs;
- Development of more sophisticated Risk management tools, providing a wider choice of risk management strategies;
- Innovations in the derivatives market, which optimally combine the risks and returns over a large number of financial assets, leading to higher returns, reduced risks and transaction costs, and often greater flexibility as compared to individual financial assets.

Features of Derivatives

Derivatives have been evolved in order to cater to the specific requirement of the users, depending upon the circumstances. Today derivatives are found in different forms such as futures, options, swap and exotics.

The peculiar features of derivatives are:

- They are designed and traded on the basis of the expectations in regard to the future price movement of underlying assets;
- They are off the balance sheet instruments; and
- They are used as risk reducing device in the fluctuations of the value of underlying assets.

The Historical Perspective

Trading in derivative contracts has a long history. The first recorded accounts of derivative contracts can be traced back to the philosopher Thales of Miletus in ancient Greece, who, during winter, negotiated what were essentially call options on oil presses for the spring olive harvest. De la Vega reported in 1688 that options and futures, or "time bargains" as they were then known, were trading on the Amsterdam Bourse soon after it was opened. Evidence also suggests that futures contracts for rice were traded in Japan in the 17th and 18th centuries. The first formalized futures exchange in the United States was the Chicago Board of Trade, which opened in 1848 with 82 members. In March 1851, the first futures contract was recorded. The contract called for the delivery of 3000 bushels of corn in June at a price of one cent per bushel below the March price. Financial derivatives are a relatively late development, coming into existence only in the 1970's. Listed stock options began trading in April 1973 on the Chicago Board Options Exchange (CBOE).

Derivatives have been a recent development in the Indian financial markets. But there have been derivatives in the commodities market. There are Cotton and Oilseed futures in Mumbai, Soya futures in Bhopal, Pepper futures in Cochin, Coffee futures in Bangalore etc. But the players in these markets are restricted to big farmers and industries, which need these as an input to protect themselves from the vagaries of agriculture sector.

In India, National Stock Exchange (NSE) introduced financial derivatives in June 2000. The first derivatives were index futures. The index used was Nifty. Option trading was started in June 2001, for index as well as stocks. In November 2001, futures on stocks were allowed. Currently, there are 116 stocks in which derivative trading is allowed. Apart from these, the exchange also allows trading in Interest Rate Futures on paper notified by SEBI from time to time.

Derivatives – A double edged sword?

Corporates make use of derivatives in modern times to mitigate and hedge risk. The three most common ways in which derivatives are used for hedging risk are:

- for hedging foreign currency (or foreign exchange) risk;
- hedging interest rates risk; and
- commodity or product input hedge by protecting itself against commodity price increases.

On the other hand, one of the world's greatest stock market investors Warren Buffet, has said — "we view them as time bombs both for the parties that deal in them and the economic system …" (2002 – 3, Berkshire Hathaway Annual Report).

In as much as derivatives hedge the risk of owning, acquiring things that are subject to unexpected price fluctuations, they are good. However, the other view is propagated and has come to stay due to the close association between derivatives and speculation. The moment derivatives (futures and options) are used without a genuine need or future requirement of the underlying contract or asset, we enter the realm of speculation and it is then that dealing in derivatives becomes like courting disaster.

In the words of Linda Davies, the author of "Into the Fire" — "It could rip your guts out overnight … the biggest, most potentially lucrative, and destructive market in the world."

Types of Derivatives

Forward Contract

A forward contract is an agreement to buy or sell an asset on a specified date for a specified price. One of the parties to the contract agrees to buy the underlying asset (long position) on a specified future date at a specified rate and the other agrees to sell the asset (short position) on the same date at the same price.

Forward contracts are very useful in hedging and speculation. A simple hedging application would be that of a wheat farmer forward-selling his harvest at a known price in order to eliminate price risk. Conversely, a bread factory may want to buy bread forward in order to assist production planning without the risk of price fluctuations. Thus forwards provide a useful tool for both the farmer and the bread factory to hedge their risks.

Example: If an investor enters into a long forward contract on December 1, 2005 to buy USD 1 million in 90 days at an exchange rate of Rs. 45.0950. This would enable him to buy USD 1 million by paying Rs. 45,095,000. If the spot exchange rate rose to Rs.45.2500 at the end of the 90-day period, the investor would gain Rs. 155,000 (45,250,000 – 45,095,000), since these dollars can be sold in spot market for Rs. 45.2500. Conversely, if the spot exchange rate fell to Rs. 44.9500, the investor would lose Rs. 145,000 (45,095,000 - 44,950,000) as he could have purchased the dollars in the spot market for a lower price.

However, forward markets lack centralized trading. The counterparties to the contract tend to structure the terms to suit their objective in a specific situation. This flexibility results in the contracts becoming non-tradable. Another serious risk is of default by any one party to the transaction. The buyer may not pay up or the seller may not be able to deliver and there may not be any redressal for the aggrieved party as this is a negotiated contract between two parties.

Futures

A future is similar to a forward rate agreement, except that it is not a negotiated contract but a standard instrument. A future is a contract to buy or sell an asset at a specified future date at a specified price. These contracts are traded on the stock exchanges and it can change many hands before final settlement is made.

The advantage of a future is that it eliminates counter party risk. Since there is an exchange involved in between, and the exchange guarantees each trade, the buyer or seller does not get affected with the opposite party defaulting.

Future price is nothing but the current market price plus the interest cost for the tenure of the future. This interest cost of the future is called as 'cost of carry'.

If F is the future price, S is the spot price and C is the cost of carry or opportunity cost, then

$F = S + C$

$F = S$ + Interest cost, since cost of carry for a finance is the interest cost

Thus,

$F = S\,(1+r)^T$

Where r is the rate of interest and T is the tenure of the futures contract.

The rate of interest is usually the risk free market rate.

Example: The spot price of Reliance is Rs 900. The 10-year Govt. paper is 7%. The one-month Reliance future would be the spot price plus the cost of carry. Since the 10 year Govt. paper yield is 7%, we can take that as the market rate. This rate is an annualized rate and hence we recalculate it on a monthly basis.

$F=900x(1+0.07)^{(1/12)}$

F= Rs 905.09

Types of Futures

Some of the popular types of futures contracts are:

1. Currency Futures

Banks and Corporate treasuries use currency futures as a hedging tool to protect them from the risk of the currency exchange rate that may affect future foreign payables or receivables.

2. Interest Rate Futures

Interest rate futures are used by corporates, banks and financial institutions to hedge interest rate risk. A corporation planning to issue commercial paper can use T-bill futures to protect itself against an increase in interest rate. A treasurer who is expecting some surplus cash in the near future to be invested in some short term investments may use the same structure in the hope of generating profits.

3. Index Futures

Portfolio managers who want to hedge risk over a certain period of time can use the index futures. By shorting these contracts, portfolio managers can protect themselves from downside price risk of the broader market. However, by using this hedging strategy, if perfectly done, the manager's portfolio will not participate in any gains on the index; instead the portfolio will lock in gains equivalent to the risk-free rate of interest.

Alternatively portfolio managers can use index futures to increase their exposure to movements in a particular index, essentially leveraging their portfolio.

4. Stock Futures

Single-stock futures are a way to reap the benefits of a stock's performance without actually owning the stock. Theoretically, they offer the benefits of ownership, of leveraging the stock or its underlying asset. But a similar opportunity is not available to the speculator-investor to sell options in the underlying scrip. As delivery of futures contract is on a future date, the investor has to put up only the margin money. Hence, he can leverage on the margins to buy more units of the underlying security.

One of the advantages enjoyed by single-stock futures is that they are cheaper to trade and easier to use for hedging strategies than options. Cheaper, because margins in futures trading are lower than in options. At the same time, the valuation of futures contracts is not as complicated as that of options. Hence, small investors find them relatively easy to understand and use.

Options

Options are fundamentally different from forward and futures contracts. An option gives the holder a right to do something, which he may or may not exercise. In contrast, in a forward or futures contract, the counter parties are committed to a certain course of action.

It is a contract in which the writer of the option grants the buyer of the option, the right to purchase or sell to the writer an instrument for a specified price within a specified period of time. The writer grants this right to the buyer for a certain sum of money called the option premium. The premium is the means by which the buyer compensates the seller for his willingness to grant the option. The price at which the option can be exercised is referred to as the STRIKE PRICE. The last day on which an option is exercised is known as the EXPIRATION DATE. An option is exercised at the sole discretion of its holder, the buyer, who will exercise when it is in his interest to do so.

Example: A railway ticket is an option. Using the ticket, a passenger has an option to travel. In case he decides not to travel, he can cancel the ticket and get a refund. But he has to pay a cancellation fee, which is analogous to the premium paid in an option contract. The railways, on the other hand, have an obligation to carry the passenger if he decides to travel and refund his money if he decides not to travel. In case the passenger decides to travel, the railways get the ticket fare. In case he does not, they get the cancellation fee.

The passenger, by booking a ticket, has hedged his position in case he has to travel as anticipated. In case the travel does not materialize, he can get out of the position by canceling the ticket at a cost, which is the cancellation fee.

The two basic types of options are:

1. Call Option

A call option gives a buyer/holder a right but not an obligation to **buy** the underlying on or before a specified time at a specified price (usually called strike/exercise price) and quantity.

2. Put Option

A put option gives a holder of that option a right but not an obligation to **sell** the underlying on or before a specified time at a specified price and quantity.

Option premium consists of two parts:

(1) Intrinsic value

The intrinsic value of a call option is the difference between the spot price and the strike price. The intrinsic value of a put option is the difference between the strike price and the spot price.

(2) Time value

Time value of an option is the price a holder of an option has to pay to the seller of an option because of the risk the seller of an option takes.

The premium charged by the seller of an option is equal to the sum of both intrinsic value and the time value.

Black and Scholes Option Pricing Formula

The options prices are computed as per the formula developed by Black and Scholes:

Price of a Call

$C = S \times N(d_1) - X \times e^{-rt} \times N(d_2)$

$$C = S \cdot \Phi \cdot (d_1) - \frac{x}{e^{rt}} \cdot \Phi \cdot (d_2)$$

Price for a Put

$P = X \times e^{-rt} \times N(-d_2) - S * N(-d_1)$

$$P = \frac{x}{e^{rt}} \cdot \Phi \cdot (-d_2) - S \cdot \Phi \cdot (-d_1)$$

where:

d1 = [ln (S/X) + (r + σ2/2) × t]/σ × √(t)

$$d_1 = \frac{\ln\left(\frac{S}{x}\right) + \left(r + \frac{\sigma^2}{2}\right) \cdot t}{\sigma \cdot \sqrt{t}}$$

d2 = [ln (S/X) + (r - σ2/2) × t]/σ × √(t)
= d1 – σ × √(t)

$$d_2 = d_1 - \sigma \sqrt{t}$$

C = price of a call option
P = price of a put option
S = price of the underlying asset
X = Strike price of the option
r = rate of interest
t = time to expiration
σ = volatility of the underlying
N (Φ) represents a standard normal distribution with mean = 0 and standard deviation = 1

ln represents the natural logarithm of a number. Natural logarithms are based on the constant e (2.718).

The fundamental differences between futures and options are as follows:

1. With futures, both parties are obligated to perform. With options, only the seller (writer) is obligated to perform.

2. With options, the buyer pays the seller (writer) a premium. In the case of futures, neither party pays a premium.

3. In the case of futures, the holder of the contract is exposed to the entire spectrum of downside risk and has the potential for all the upside returns. In the case of options, the buyer is able to limit the downside risk to the option premium but retains the upside potential.

4. The parties to a futures contract must execute the contract at the settlement date. The buyers of an options contract can exercise any time prior to the expiration date.

Swaps

It is a technique through which a borrower can access one market and then exchange the liability for another type of liability. Swaps by themselves are not a funding instrument; they are a device to obtain the desired form of financing indirectly. The borrower might otherwise have found this too expensive or even inaccessible. The popularity of the swaps is because of the basic principle is that some companies have a comparative advantage when borrowing in fixed rate market while other companies have a comparative advantage in floating rate markets. This may lead to some companies borrowing in fixed markets when the need is of a floating rate loan and vice versa. Swaps are used to transform the fixed rate loan into a floating rate loan.

Type of Swaps

1. Interest Rate Swap

An interest rate swap as the name suggests involves an exchange of different payment streams, which are fixed and floating in nature. In this, one party, B, agrees to pay to the other party, A, cash flows equal to interest at a predetermined fixed rate on a notional principal for a number of years. At the same time party A agrees to pay party B cash flows equal to interest at a floating rate on the same notional principal for the same period of time. London Inter-bank Offer Rate (LIBOR) is often the floating interest rate in many of the interest rate swaps. LIBOR is the interest rate offered by banks on deposits from other banks in the Eurocurrency markets. Just as the Prime Lending Rate (PLR) is used as the benchmark for many Indian floating rate instruments, LIBOR is most frequently used reference rate in international markets. At any given point of time, the swap spreads are determined by the supply and demand. If more participants in the swap markets want to receive fixed rather than floating, swap spreads tend to fall. If the reverse is true, the swap spreads tend to rise.

2. Currency Swaps

Currency swaps involves exchanging principal and fixed rate interest payments on a loan in one currency for principal and fixed rate interest payments on an approximately equivalent loan in another currency. Suppose that a company A and company B are offered the fixed five-year rates of interest in U.S. dollars and pound sterling. Also suppose that sterling rates are generally higher than the dollar rates. Also, company A enjoys more creditworthiness than company B and it is offered better rates on both dollar and sterling. What is important to the trader who structures the swap deal is that difference in the rates offered to the companies on both currencies is not the same. Therefore, though company A has a better deal in both the currency markets, company B does enjoy a **comparatively lower disadvantage** in one of the markets. This creates an ideal situation for a currency swap. The deal could be structured such that company B borrows in the market in which it has a lower disadvantage and company A in which it has a higher advantage. They swap to achieve the desired currency to the benefit of all concerned.

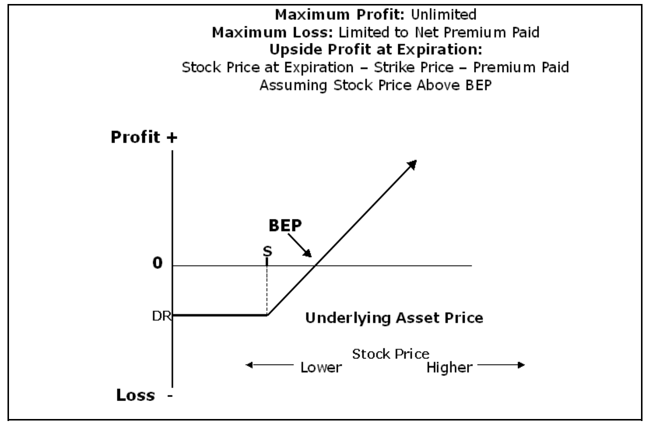
3. Other Swaps

There is no limit to the number of innovations that can be made given this basic structure of the product. One innovation is that principal in a swap agreement can be varied throughout the term of the swap to meet the needs of the two parties. In an amortizing swap, the principal reduces in a predetermined way. This could be designed to correspond to the amortization schedule on a particular loan. Another innovation could be the deferred or forward swaps where the two parties do not start exchanging interest payments until some future date. Another innovation is the combination of the interest and currency swaps where the two parties exchange a fixed rate currency payment for a floating rate currency payment. Swaps are also extendable, where one party has the option to extend the life of the swap or puttable, where one party has the option to terminate the swap before its maturity. Options on swaps or Swaptions, are also gaining in popularity. A constant maturity swap (CMS) is an agreement to exchange a LIBOR rate for a swap rate. Foe example, an agreement to exchange 6-month LIBOR for the 10-year swap rate every six months for the next five years is a CMS. Similarly, a constant maturity treasury swap (CMT) involves swapping a LIBOR rate for a treasury rate. An equity swap is an agreement to exchange the dividends and capital gains realized on an equity index for either a fixed or floating rate of interest.

Some Option Strategies

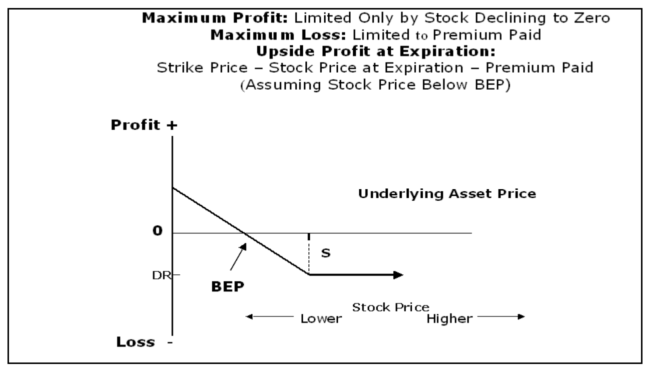
Long Call: *Bullish Speculation*

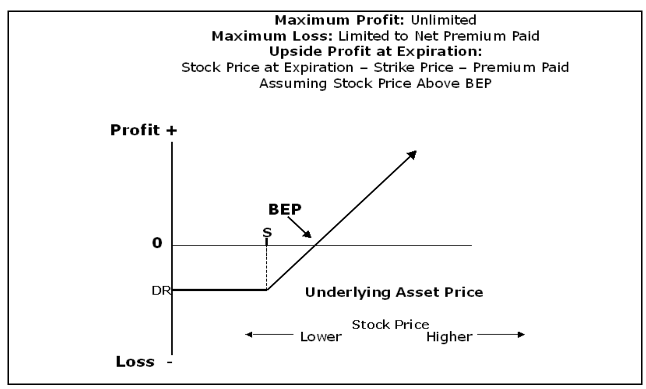
The investor buys such a call option instead of buying the underlying security comparing the lower cost of buying a call contract versus an equivalent amount of stock as a form of insurance. The investor protects himself against rise in the price of the underlying security and gets his purchase price locked by taking a Long Call.



Long Put : Bearish Speculation

The investor buys such a Put Option instead of actually owning the underlying security and making profit out of downward movement of the same. The investor willing to sell his securities at a future date due to some reason protects himself against fall in the price in underlying security and gets his selling price locked by taking a Long Put.

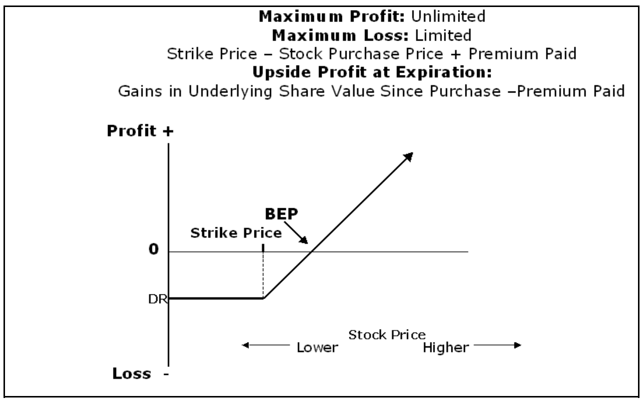




Married Put : Bullish to very bullish

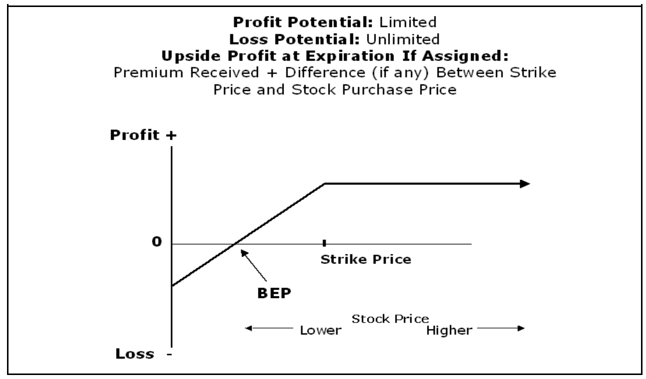
The investor employing the married put strategy wants the benefits of stock ownership (dividends, voting rights, etc.), but has concerns about unknown, near-term, downside market risks. Purchasing puts with the purchase of shares of the underlying stock is a directional and bullish strategy. The primary motivation of this investor is to protect his shares of the underlying security from a decrease in market price. He will generally purchase a number of put contracts equivalent to the number of shares held. Protective Put : Bullish on the underlying stock

The investor employing the protective put strategy owns shares of underlying stock from a previous purchase, and generally has unrealised profits accrued from an increase in value of those shares. He might have concerns about unknown, downside market risks in the near term and wants some protection for the gains in share value. Purchasing puts while holding shares of underlying stock is a directional strategy, but a bullish one.



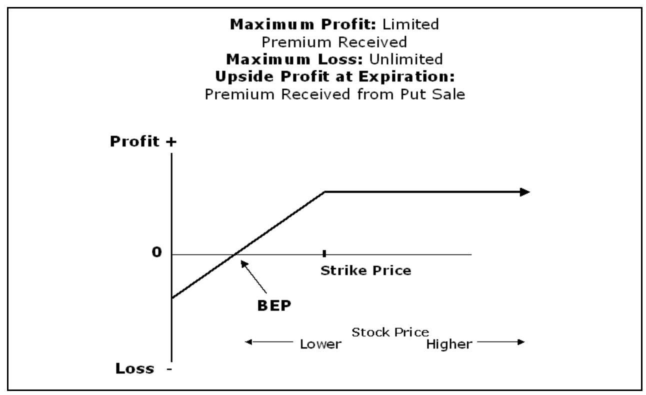
Covered Call : Neutral to Bullish on Underlying Stock

Though the covered call can be utilized in any market condition, it is most often employed when the investor, while bullish on the underlying stock, feels that its market value will experience little range over the lifetime of the call con-tract. The investor desires to either generate additional income (over dividends) from shares of the underlying stock, and/or provide a limited amount of protection against a decline in underlying stock value.



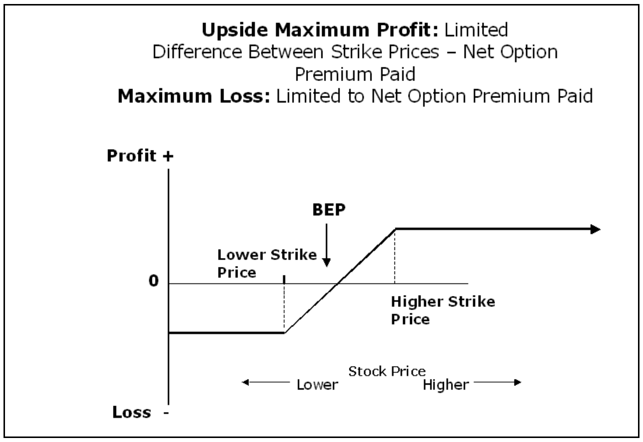
Covered Put : Neutral to slightly Bullish

There are two key motivations for employing this strategy: either as an attempt to purchase underlying shares below current market price, or to collect and keep premium from the sale of puts which expire out-of-the-money and with no value. This strategy can become speculative when more puts are written than the equivalent number of shares desired to own.



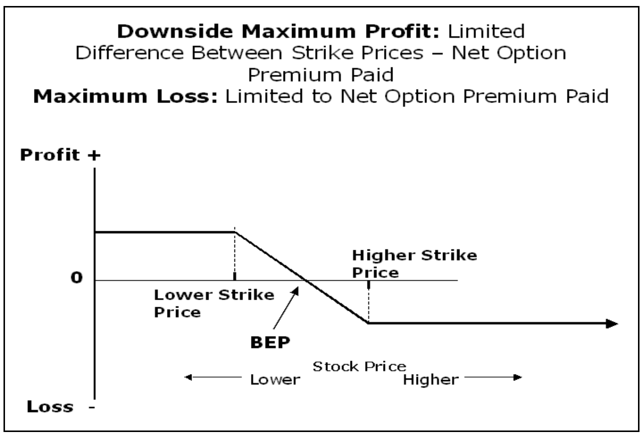
Bull Call Spread : Moderately Bullish to Bullish

An investor often employs the bull call spread in moderately bullish market environments, and wants to capitalize on a modest advance in price of the underlying stock. If the investor's opinion is very bullish on a stock it will generally prove more profitable to make a simple call purchase.



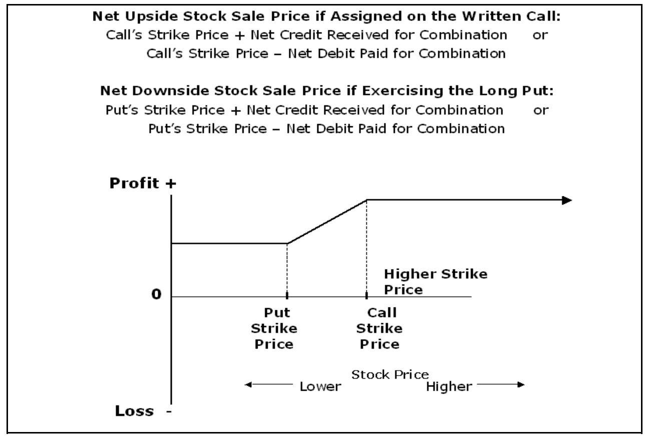
Bull Put Spread Moderately Bearish to Bearish

An investor often employs the bear put spread in moderately bearish market environments, and wants to capitalize on a modest decrease in price of the underlying stock. If the investor's opinion is very bearish on a stock it will generally prove more profitable to make a simple put purchase.



Collar : Neutral, following a period of appreciation

An investor will employ this strategy after accruing unrealised profits from the underlying shares, and wants to protect these gains with the purchase of a protective put. At the same time, the investor is willing to sell his stock at a price higher than the current market price so an out-of-the-money call contract is written, covered in this case by the underlying stock.



Some Economic Benefits of Derivative Securities

At first glance, the economic benefits of derivatives might not be apparent, since derivatives are zero-sum monetary plays: the amount paid by one side of the contract is the amount received by the other side. When the contract expires or is exercised, the gains and losses completely offset each other. But even though derivatives represent zero-sum monetary plays, they need not represent zero-sum economic plays. Individuals and firms that use derivative instruments can do so to hedge, to speculate, or to engage in arbitrage. When individuals or firms hedge risks with derivatives, they are attempting to use these contracts as a kind of insurance against a bad future outcome.

Hedging

Derivative contracts are widely used to hedge a variety of risks. Corporate firms and Financial Institutions use products like interest rate swaps, currency swaps, forward foreign exchange contracts, interest rate options, and currency options to hedge risks arising from new financing, to hedge exposure from foreign currency translation, to hedge foreign exchange transaction exposures, to manage or modify the characteristics of their existing assets and liabilities or to offset option positions embedded in the assets and liabilities such as call or prepayment features in loans and bonds.

When used to hedge risks, derivative instruments transfer the risks from the hedgers, who are unwilling to bear the risks, to parties better able or more willing to bear them. In this regard, derivatives help allocate risks efficiently between different individuals and groups in the economy.

Speculating

Investors can also use derivatives to speculate and to engage in arbitrage activity. Speculators are traders who want to take a position in the market; they are of the opinion that the price of the underlying asset or commodity will move in a particular direction over the life of the contract. For example, an investor who believes that the Yen will rise in value relative to the U.S. dollar can speculate by taking a long position in a forward contract on the Yen. If the value of the Yen on the expiration date is above the delivery rate set when the forward contract was written, the speculator earns a profit on the contract.

The use of a forward contract for speculation has an advantage over actually buying the assets and holding them because neither party puts any money up-front when entering into the forward contract. Thus, the forward contract gives the investor much more leverage than buying the underlying asset in the cash market.

While speculation may seem to be no more than gambling on future price movements, speculators play an important role in financial markets because they provide liquidity. This liquidity enables other investors, who may be using derivatives to hedge risks, to more easily buy and sell derivative contracts.

Arbitrage

Arbitrageurs represent another important group of derivatives users. Arbitrageurs look for opportunities to earn riskless profits by simultaneously taking positions in two or more markets. Arbitrage opportunities can occur when prices in financial markets get out of sync. When this happens, arbitrageurs step in and, by doing so, help to get market prices back into alignment. This activity helps to keep prices consistent across markets.

Arbitrage activity also helps to keep asset markets liquid and thus reduces transaction costs. Arbitrageurs are taking positions in derivative instruments and in the assets that underlie them. Therefore, arbitrage helps to reduce liquidity premiums, or the difference between the purchase price and the sale price of the underlying assets.

Leverage

Derivative contracts also aid in risk allocation because of the cheap leverage opportunities they provide to the investor. The investor can control a large holding in an asset for a small amount of money. Since the investor participates in the gain from the price movement of the underlying asset for a fraction of the cost of the asset, this can significantly increase the rate of return.

Example: Call option on MandM. On Nov 01 a call option on 100 shares of MandM stock with a strike price of Rs.350 is sold for Rs.1500. MandM shares in November 05 are selling for Rs.360. To purchase 100 shares of MandM would have cost an investor Rs.36000. If, in December 05, MandM shares sell for Rs.370 per share, the holder of the option will exercise it and reap a profit of Rs.500 on his Rs.1500 investment in the call option. If the shares had been bought outright, the investor would have gained Rs.1000 on a Rs.36000 investment.

Generally leveraging is a good thing for financial markets, because leveraged positions give investors access to risk-return tradeoffs they otherwise would not have. Broadening the menu of available choices helps individuals tailor risk to their own investment, hedging, or arbitraging situation. Derivative contracts allow investors to leverage relatively small amounts of funds over a wide class of assets and thus diversify their portfolios.

However, leverage can work to an investor's disadvantage as well. The Barings Bank collapse in 1995 is a case in point. The trader, Nicholas Leeson began selling large numbers of option straddles on Nikkei-225 futures, a strategy that involved the simultaneous sale of both calls and puts. The strategy works in a stable market, where, however, the option seller's upside is restricted to the option premium. If prices turn out to be more volatile than expected, however, an option seller's potential losses are virtually unlimited. The violent earthquake in Kobe, Japan sent the Japanese stock market into a tailspin and the Nikkei lost 1500 points in a week. As stock prices fell, he began buying massive amounts of Nikkei stock index futures. He also placed a side bet on Japanese interest rates, selling Japanese government bond futures by the thousands in the expectation of rising interest rates. This strategy seemed to work for a short time as the Japanese stock market had recovered by over 1,000 points. But within days the market began falling again — Leeson's losses began to multiply. He continued trading on margins to increase his exposure as the market kept falling. Matters finally came to a head when Leeson absconded when confronted with discrepancies in the accounts. Total losses attributable to Leeson's actions came to £927 million.

Complete Markets and Derivative Instruments

In addition to efficient allocation of risk, derivatives offer another important benefit: they can provide investors with opportunities that would otherwise be unavailable to them at any price. That is, derivatives can provide payoffs that simply cannot be obtained with other, existing assets. In theory, derivative contracts can be written to provide any conceivable pattern of payoffs that depend on future conditions. Or, in economists' language, derivatives can make markets complete. Complete markets are desirable because they provide maximum flexibility for investors, since any possible pattern of returns can be achieved using a portfolio of existing securities. In addition, economic theory tells us that a complete market is economically efficient, which means that resources cannot be reallocated in such a way as to make everyone better off. In reality, there are obstacles to achieving complete financial markets. For example, writing and enforcing contracts that cover certain contingencies present difficulties; costs make some transactions infeasible; and government regulations may interfere with the market's ability to provide some payouts. Given these obstacles, we want to create securities that will help us get closer to complete markets. This is where derivative instruments come in: derivatives can help move financial markets toward completeness.

Furthermore, it may be much less costly to complete markets by using derivative securities than by creating new basic securities. Thus, derivative securities can lower transaction costs for investors.

Derivatives and their prices tend to approximate what the collective wisdom, intuition and outlook of investors is likely to expect in the future and hence are really pointers to how the underlying asset or contract is going to be priced in the future, or at least what the market thinks its price is going to be.

As John Maynard Keynes has said in his book "The General Theory Of Employment, Interest and Money" — London: MacMillan, St. Martin's Press,1936, page 156,

"Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not the faces which he himself finds the prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view."

"It is not a case of choosing those which, to the best of one's judgement, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree when we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practise the fourth, fifth and higher degrees."

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Types of Financial Instruments

Indian Talent Respected All Over the World

Jerry Rao has opined that the concept of Hundi (Bill of Exchange) was invented in India. And Prakash Tandon says:

"Indian bankers usually worked independent of one another and the most important among them had branches in different part of their province and even outside, managed by munims or agents, whose honesty and integrity are proverbial. They readily helped members of their fraternity their establishments were small, efficient and economical., their accounting procedures simple but accurate, with no auditing or balance sheets and they were personally available to clients at all times of day and night. Their borrowers were intimately known to them, which made it easier to guage their creditworthiness and keep a watch. They rarely failed to lend whenever there was a demand, and their readiness to meet any emergency gave confidence to the traders and the public"

Euro Instruments

1) Euro bonds
2) Global depository receipts
3) Foreign currency convertible bonds

Securitisation

1) Pass Through Certificates(PTC)
2) Mortgage or Asset Backed Bonds
3) Derivative and Stripped Derivative Securities
4) Credit Card Structure
5) Commercial Paper Funded Vehicles
6) Mortgage Backed Securities(MBS, RMBS, CMBS)
7) Collateralised Debt Obligations(CDO, CLO, CBO)
8) Asset Backed Commercial Paper(ABCP)

Mutual Funds

1) Index Funds
2) Exchange Traded Funds

Instruments in the Money Market

1) Call Money Market
2) Term Money Market
3) Treasury Bills
4) Commercial Paper
5) Certificate of Deposit
6) Commercial Bills
7) Inter Corporate Deposits
8) Money Market Mutual Fund (MMMF)
9) Repurchase Obligations (REPO)

Derivatives

1) Forwards
2) Futures
3) Options
4) Warrants
5) LEAPS
6) Baskets
7) SWAP
8) Swaptions

Bond market

1) Debentures
2) Bonds
3) Fully convertible debentures
4) Partly convertible debentures
5) Callable debentures
6) Puttable securities
7) Zero Interest Convertible Debentures/Bonds
8) Deep Discount Bonds
9) Option Bonds
10) Partly Convertible Debentures with buy back arrangement
11) Non-Convertible Debentures with equity warrants
12) Zero Coupon Bonds
13) Optionally Convertible Debentures
14) Non-convertible Debentures on Private Placement basis
15) Triple Option Convertible Debentures
16) Participating Bonds

17) Cumulative Bonds
18) Debenture Trust Receipts
19) Public Sector Bonds
20) Bonds for Small Investors
21) Pay in Kind Preferred Stock
22) Stated Rate Auction Preferred Stock (STRAPS)
23) Dutch Auction Interest and Dividend Reset
24) Money Market Preferred Stock (MMPS)
25) Cumulative Preferred Stock
26) Extendible Notes
27) Equity Linked Notes
28) As-You -Like Warrant
29) Floating Rate Enhanced Debt Security (FRENDS)
30) Carrot-and-Stick Bonds
31) Covered Option Securities (COPS)
32) Indexed Currency Option Notes (ICONs)
33) Reverse Dual Currency Bond
34) Principal Exchange Rate-Linked Securities (PERLS)
35) Foreign Interest Payment Security (FIPS)
36) Step-Down Preferred Stock
37) Flip-Flop Bond or Note
38) Leveraged Capped Floater
39) Contingent Payout Option
40) STRIPS
41) Treasury Interest STRIPS
42) Zero Coupon Convertible Bond
43) Zero Coupon Accrual Note
44) Yankee Certificate of Deposit
45) Yield Curve Flattening Warrants

Capital Markets

1) Cumulative Convertible Preference Share (CCP's)
2) Equity Shares
3) Preference Shares
4) Warrants
5) Stockinvest
6) Unsecured Short-term Deposit
7) Secured Premium Notes(SPN)
8) Non-Voting Shares
9) Factoring

Source: Extracted from project entitled "Financial Instruments" submitted to Dr. Guruprasad Murthy, Visiting Faculty SPJIMR, Andheri, Mumbai in partial fulfilment of course requirements for PG IInd year (2004-05) (11 students)

♦♦♦

A French traveller, Tavernier had said,
"All the jews who occupy themselves with money and exchange in the empire of the Grand Sergeneur, pass for being very sharp, but in India they would scarcely be apprentices to these changers"

Corporate Treasuries

Raghav Sud and Anand Oswal

Traditional Concept of Treasury Management

Treasuries have been traditionally associated with banks. There they have usually comprised the following typical structure. A typical treasury will be divided into different functions :

- The Front Office
- The Back Office
- Risk Management

The treasurer is responsible for the entire treasury operation and often reports directly to the chief executive officer. The *front office* is divided in to several different desks each focussing on a specific market. A chief dealer who reports to the treasurer will head each desk. The front office desk are the following:

- **Forex Desk**: The forex desk transacts all forex products in the rand and in other currencies to service corporate customers and to generate income for the bank. The forex desk is a major source of income to the treasury. The forex desk is further divided into functional units under the leadership of a chief trader. The forex desk functional units are the spot desk, forward desk, corporate desk and currency option desk.

- **Domestic Money Market Desk:** The Money Market Desk of Treasury mainly deals with Rupee Treasury functions. The basic activities undertaken by the MM Desk are :

– Management of Statutory Reserves viz. Cash Reserve Ratio (CRR) and Statury Liquidity Ratio (SLR).

– Daily Funds and Liquidity Management.

– Balance Sheet Management.

– Investment Management.

Products and services, which, the Desk offers are mainly caters to the two different market segments viz. Inter-Bank and Corporate market.

– Call/Overnight Lending and Borrowing

– Term Money Borrowing and Lending

– Rupee Line of Credit

– Repo and Reverse Repo

– Sale and Purchase of Treasury Bills

– Government Securities (Central and State)

– Index-linked Borrowing and Lending etc.

Money Market Desk also subscribes to the primary offerings of

– Commercial Papers (CP)

– Certificate of Deposits(CD)

– Government Bonds (G-Sec)

– Bonds and Debentures issued by Corporate (including PSU and other Approved Bonds)

– Equities etc.

- **Equities Desk**: This desk is involved in trading in the secondary issue market and is addressed as a profit centre. It does not do too much business for clients and instead is focused on trading for banks arbitrage profits.

Risk management too has now become an integral part of the front office operations of a treasury. It involves trading in derivatives and addresses these trades on a complete basis right from equity to forex to debt and money market securities. It is an essential desk now both from the point of view of hedging the risk of the bank as well as from a profitability view point in terms of trading.

The operational (*back office*) units structured to provide dedicated processing and analytical support for the other departments. This support includes ensuring the integrity and smooth transfer of financial data, maintenance of legal documentation and prudential controls, trading system administration, and the provision of all accounting, trade settlement and call monitoring activities for traded financial instruments (e.g. bonds, swaps, swaptions, etc.). Accounting information and financial reports are made available on a daily and monthly basis. The marketing desk will usually interface with the clients to get orders and also to inform the traders of their requirements.

Why we need treasury management ?

(i) Manage Cash Flows

(ii) Hedge Forex exposures

(iii) Hedge price fluctuation

(iv) Manage Excess Idle Cash in the best possible way

(v) Be a profit centre for the company

Approaches In Treasury Management

Today, successful treasury departments are making important shifts from managing traditional day-to-day functions to focus more on strategic and value added activities. That shift is being shaped by the growing demand for finance related positions to take leadership roles in creating shareholder value, reducing costs and a host of other opportunities.

While the opportunities are there, the new economy and difficult business conditions have placed Herculean demands on treasury and finance. Making the shift to a more strategic role takes practice, the right environment and the right attitude.

Three types of treasury deparments:

➔ The first is a “paint by numbers” department where the functions are clearly defined and there is little opportunity to do anything other than what's prescribed.

➔ The second type allows treasurers to “play around the fringes” with limited freedom to work outside traditional boundaries.

➔ And the third is a more active treasury function with the freedom to define what needs to be done.

The Corporate Treasury and its Transformation

Traditionally, the corporate treasury functions has been perceived as a support centre for the functional business units of the corporation. Senior management and the functional departments within the corporation have relied on treasury to centralise the daily functional information and to make appropriate actions to maintain sufficient liquidity for the entire organisation.

However, global market competitive pressures to increase profitability, coupled with new waves of enterprise information, will lead to transformation of the treasury function. More precise information about the timing and cost or benefit of each inflow and outflow of cash enables treasurers to transform treasury into optimal operations and allows them to participate in their organisation's quest for increase value and profitability.

As some shrewd treasury professionals have discovered, minimising the costs of maintaining liquidity for the enterprise and maximising the utilisation of capital resources in an untapped treasure-trove for creating increased shareholder value and gaining a financial competitive advantage. Let's look at how this can be accomplished.

Today's Corporate Treasury

Today's commonly accepted treasury practices on maintaining sufficient liquidity to enable the enterprise to conduct its daily operations. Fulfilling this objective, in many organisations, has proven to be a significant challenge since treasury personnel are frequently given only sketchy insights (e.g. forecasts) into highly complex, daily financial activities of all aspects of enterprise.

Naturally, treasury personnel are force to seek techniques and processes for reducing the complexity to managable levels. Outsourcing of complex, tedious cash management tasks, such as concentration services, controlled disbursements and multilateral netting, have become commonly accepted treasury practices. Utilizing just a few debt and investment instruments (the standard “playbook”) is how most corporations typically cope with cash surpluses and deficits. What's more, the imperfect information framework within which treasury personnel must make daily, critical financial decisions forces them to accept overly conservative and sub-optimal treasury practices. As a result, many treasury personnel have no choice but to focus their energies on a very short time horizon of what is understood: the cash needs of the enterprise over sometimes no more than the next few operating desk. With this myopic view, treasury operations suffer from significant, unnecessary costs to the enterprise's financial performance.

These costs include :

- Excessively short investment terms yielding sub-optimal returns.
- Excessive, unplanned short term borrowing (many times over borrowing) to meet liquidity needs that could have been met through better planning.
- Investments in instruments that are familiar but not necessarily those with the highest yields and those that fits cash needs.
- Idle balances swept into low-yielding funds.
- Sub-optimal concentration of funds resulting in unnecessary fees or idle funds with each transaction.
- Splintered, segmented financial decision making across functional treasury areas of cash management, debt and investment.

The Corporate Treasury Transformed

Numerous factors are forcing corporate treasury to operate at the highest possible level. Global competition, global market volatilities, and the quest for increased shareholder value are dictating that treasuries operate optimally and that they adopt, at a minimum, the following objectives :

- Cash availability that almost identically mirrors cash needs with minimal excesses or deficits (just-in-time cash)
- Account balances that always match target balances.
- Planning that minimises the fees and commissions for each and every cash, investment and debt transaction for the entire reporting period.
- Cash forecast data from all departments that is known well in advance, is updated regularly, and increses in accuracy with time.
- Investment strategies that utilize every available dollar in the highest yielding instruments, confirming to the treasury policy.
- Borrowing strategies under which each dollar is borrowed for no longer than absolutely necessary and only at a minimum cost.
- Strategic "interleaving" of cash movements, debt drawdrowns and investments to minimise total cost and maximise total return for the entire period.
- Treasury policies that are never unintentionally violated and are continually analysed and updated to permit profit maximisation and cost minimisation as changes in internal enterprise operations and external market conditions unfold.

It is only when the processes and practices within the treasury operations are optimised that stakeholders may realise the financial performance and competitive edge they are seeking. Without treasury operation optimisation, the organisation will never realise its financial potential.

Tapping the New Treasure-Trove: Processes, Tools and Techniques

Optimizing treasury operations requires significant volumes of real-times information relevant to both the internal and external financial conditions of the enterprise. It also requires complex analysis of this information, which should contain both mathematical calculations as well as strategic reasoning. Key components of an optimised treasury are as follows :

Accurate Forecasting

The success of attempting to optimize treasury operations, in large part, hinges on the accuracy of an organisation's cash flow forecasts. Forecasts provide the roadmap that shows the estimated financial positions of the enterprise over the near and longer term horizons. As a wise Cheshire cat once admonished "if you don't know where you are going, any road will do." In treasury, if you don't know what financial position you will encounter, almost any set of transaction (provided they maintain sufficient liquidity) will do – but at significant cost.

Committing to the objective of optimising a treasury operation requires an equivalent commitment to a financial forecasting system that is conscientiously maintained and regularly updated. The forecast modelling system must take as input :

- Early information from the enterprise's internal business processes instead of only accounting information (e.g., Using knowledge of purchase orders rather than accounts payable for predicting)

- External environmental variables influencing the financial performance of the enterprise.
- Historical differences between the predicted forecast and the actual financial positions to allow the forecasting model to improve its accuracy overtime.

Managing Information and Measuring Costs

one of the most powerful enablers for optimising treasury operations is accurate, real-time financial information from each functional department of an organisation. Enterprise resource planning (ERP) software, once operational, provides profilic streams of enterprisewide data. Through market data feed subscriptions and thousands of internet sites, treasury personnel have a access to almost any data affecting the enterprise's operations. Treasury workstations and other treasury technology products help to gather, consolidate and report some of this data as well. The difficulty in realising the potential value from this wealth of information stems from the complexity of finding, understanding, and integrating many pieces of information relevant to any given finance decision. Moreover, measuring the costs of each financial decision is regularly overlooked. Unless information can be ultimately transform into a financial benefit to the enterprise, it is worthless and expenditures on data management systems are squandered. Analytical tools that automatically shift through volumes of data and present decision makers with precise strategic information and costs provide the only hope of harnessing value as this inundation of data increases.

Minimising Costs and Maximising Returns

As in every other department, there are well defined cost and benefit structures associated with the treasury operation. Shrewd treasury professionals have discovered that minimising the cost of maintaining liquidity for the enterprise and maximising the utilisation of capital resources is an untapped treasure- trove for creating increased shareholder value and gaining a financial competitive advantage. By identifying and understanding the costs, both direct and indirect, of every transaction contemplated every operating day, treasury strategies can be formulated that meet liquidity objectives of the organisation. These strategies are also minimise cost and maximise return, representing substantial savings over the standards treasury operating practices.

On many occasions these strategy decisions can be obscure, non-obvious sets of transactions. An example of an optimal borrowing strategy might be to draw down a more expensive credit line for a few days until credit on a cheaper line becomes available. While this strategy might appear to be more expensive, the long-term costs could be less than drawing on the cheapest line available the day the cash was needed. Having the foresight to look many “moves” ahead over the longer terms will lead to significant progress toward creating an optimal treasury operation and increasing shareholder value.

Changing Processes

As treasury personnel begin to gain easy access to higher volumes of increasingly accurate enterprise-wide financial information, they will have the ability to fine-tune their cash, debt and investment management to meet the precise needs of their organisation. Just as manufacturing operations adopted just-in-time techniques for streamlining their operations, treasury departments will also be expected to practice just-in-time treasury management. Not only should investments be expected to be made in only the highest yielding instrument but also it should be expected that they not be liquidated until they are actually needed to fund enterprise activities. Purchasing liquidity (debt), like purchasing manufacturing raw materials, should be delayed until the last possible moment-just-in-time-and then only at the lowest price. Typical cash management services (concentration, zero-balance and control disbursement accounts)-like manufacturing outsourcing – should be completed at the minimum cost, eliminating middlemen and non-value-added parties wherever possible. Financial resources for foreign operations-like manufacturing raw materials-should be “purchased” locally so as to minimise excess exchange (export/import) costs. Global treasury operations will assume more centralise rather than distributed operating models, and users will need to minimise the “route” (and cost) of moving financial resources between business units.

Corporate treasuries need to establish tools that give them the ability to definitively assess the structure and viability of their treasury policies as the internal and external enterprise conditions evolve. On too many occasions, policies and processes become outdated and inefficient, serving to inhibit financial performance rather than enhance it. Techniques for assessing the value of adopting new policies and processes will become critical to management's ability to navigate effectively through changing economic times.

Utilising New Tools

New tools that automate the functionality necessary to transform treasury operations are emerging. Combining today's treasury management systems with emerging treasury analytics software will allow organisations to recognize significant cost and time savings in every process, from forecasting to execution of daily treasury transactions.

Treasury executives can now purchase software that examines an enterprise's cash position, its forecasted reciepts and disbursements, and the external financial markets. Using artificial intelligence techniques, this software then calculates millions of possible solutions (sets of investments, financings and fund movements) to the current financial situations and evaluates and compares their total costs for their entire period in questions.

By allowing treasury to manually modify initial conditions, constraints, or the solutions itself, this software gives the user the ability to run hypothetical “what-if” scenarios, assessing how various changes in the markets, corporate policies or the proposed solution will affect the enterprise's bottom line from a risk/reward standpoint. These capabilities can also be useful in performing sensitivity analyses around many financial environmental parameters, such as interest rates, exchange rates, or other variables influencing the business climate.

Systems like these give treasurers the ability to take monumental strides toward the process of transforming their treasury departments into efficient, optimal operating units. Use of these systems also enables treasurers to make major contributions to their organisation's quest for increased value and enhanced profitability.

Centralised Treasuries

Why a centralised treasury ?

- While the pendulum continually swings back and forth between centralisation and decentralisation in many managerial functions, financial executives argue there is little to debate in treasury management: Centralisation is inherently and inevitably the right answer. After all, good treasury management is about effectively aggregating and netting, so the greatest efficiency comes from aggregating and netting over the widest possible area. This makes it possible to minimise stranded or fragmented liquidity and maximise the use of your own, internally generated cash. By managing ones whole working-capital position and by bringing all excess liquidity together and making decisions, you can typically decrease cost of debt and increase the yield on excess liquidity.

- Most recently, centralisation has also been given a push by the single currency in Western Europe. The advent of the euro means there's no longer a need to maintain separate treasuries in each Western European countries because of currencies.

Exceptions to Centralisation

a) While the concept of consolidation is clear, there are a number of gradations and variations in the ways a company can set up a global treasury. Although all significant decisions must be made on the basis of consolidated financial information and with knowledge of what other parts of the treasury are doing, that does not mean all actions must be taken in the same office. For example, even with a centralised treasury, day-to-day trade finance should still be done at the local level. The need for local decision making on trade finance is bound up with the nature of the activity. Trade finance is often arranged in local markets for local needs. Managing it from afar makes it harder to get it right. And nothing is lost in localising control because its less likely to lend itself to economise of scale.

b) Similarly, tax planning is evolving, as an activity that often requires having people on the ground in all major locations. Those locals are the only ones who are likely to be fully attuned to the nuances of local tax practices and regulations. However, while local knowledge is vital, so is a focus on the big picture. After all, the corporate goal is not necessarily to minimise tax burdens in a particular country, but rather to minimise overall tax burdens. As a result good tax planning tends to be done in coordination with the head office. There have to be locals figuring out what's the best strategy in their country, but the central office must be involved to integrate information into a global tax strategy.

c) Another area requiring local capabilities is the basic collection and disbursement associated with activities in that locality. They maintain bank accounts for normal operation's like payroll, materials, etc. These activities are prescribed by rules at the headquarters. Think globally about guidelines—but act locally when it comes to handling small amounts.

d) Of course, for some companies, the degree of centralisation is not always up to them. There could be tax or regulatory issues. Insurance companies, for example, are some times required to keep cash in jurisdictions in which they sell coverage, and some nations limit the funds that can be repatriated by foreign companies.

Pitfalls

- These days, the major factors inhibiting companies from achieving the benefits of consolidation often have to do with their history. Companies that have grown through mergers and acquisitions, such as Glaxo and Boston Scientific, present greater challenges in consolidating treasury operations because acquisitions add a series of fully developed and independent treasury operations. They don't initially finds they have a very large number of bank relationships and a large number of accounts across a large number of subsidiaries and acquired companies, which results in an inefficient use of cash.
- One problem is technological. In cases where various divisions and subsidiaries are operating on autonomous systems, it's difficult to break out of that mold and get to the point where centralization is easy and cost effective. The right technological and accounting infrastructure must be put in place before centralization can occur.
- Another problem has to do with management disenchantment. No employee likes to cooperate with a process that could eventually eliminate his or her job or require a move to the headquarters city. But senior management in a locality will sometimes thwart centralization because they like heading an organization that looks like a real company complete with a treasury operation, and not just a branch office. The key: Show employees the importance of their role as gatherers of information and data for central office. Centralization is more about capturing information in one location. Financial people around the world can participate in this process.

In-House Bank

One device that several companies have used is the in-house bank. At Boston Scientific Corp., for example, they run an in-house bank in which all of the subsidiaries participate. They borrow from it and put funds on deposit in it, so it provides a way of recycling their internal cash. They have a netting program which is a coordinated settlement of inter-company transactions. So that all the cash moves through the company on a framed timeline.

Where to Set up the Treasure?

In the course of sorting out what can and cannot be centralized, it turns out companies have choices as to where their financial focal point should be located. While consolidation requires treasury decision-making in a single place, that place need not be where other senior manager are located. Sony Corp. has recently been striving to consolidate worldwide management of its cash, foreign exchange and risk – but in London, not at headquarters in Tokyo. The London time zone is better suited for following the sun in making short-term investments.

How to centralize?

It's clear companies can pursue very different approaches in achieving centralization. Some have undertaken elaborate planning processes and centralized all at once, like EDS, where the centralization process took 180 days from start to finish. Other companies have gradually moved data and decision-making from field offices to headquarters.

The situation in the U. S.

In 2001, a Greenwich Associates study of the 1,000 largest U. S. companies reported that 87% already consider themselves centralized and nearly one-third of the remainder plan to centralize within the next 24 months.

Case Study : Electronic Data Systems

EDS Corp. consolidated the far-flung computer company's treasury operations. They shut down treasury offices in four places across the globe – Sao Paolo, Hong Kong, Mexico City and London – and totally centralized. Today, a global treasury is run from the $ 19 billion company's Plano offices. There is no treasury outside of corporate headquarters where they do everything here with regard to global liquidity management – all cash, foreign exchange, debt and investment.

The benefits of this sweeping transformation, undertaken between July 1999 and February 2000, have been huge. They reduced the amount of cash by 75%, reduced foreign exchange trading costs by 60% and they reduced staff and associated costs by 44%.

Conclusion

In planning and implementing treasury consolidation, it's not a case of one-size-fits-all. A lot of what we did was intuitive. You have to look at your own situation and evaluate it and then decide how to deal with it. The on point where companies are all alike, he insists, is in their ability to benefit from consolidating their financial management.

JIT in Treasuries

For treasurers, probably nothing will present more challenges in the first years of the new millennium than the impact of the Internet and electronic commerce. Their changes will make the treasurer much central to the operation, planning and direction of a corporation. As a result, a new type of treasurer is in the making – the E-treasurer.

Treasury then and now

In many ways, the role of the treasurer had not qunatumly changed in the decades prior to the proliferation of electronic commerce. The business cycle process from design through manufacturing to final delivery was a fairly rigorous, highly compartmentalized, step-by-step affair. Much of the process was labour intensive, and involved a considerable paper trail and a great deal of duplication and reconciliation. Since goods, services and information moved relatively slowly, the only overall picture that management could gain of a company's financial position was historical.

As a result, the performance measures used internally by management and even externally by stock analysts were historically based. Definitions of profitability and efficiency centred on the more easily measurable aspects of the operation, namely sales and cost of sales. Marketing and sales, as functions, were viewed as the real core of the business, which all other functions existed to support.

In this context, the job of the treasurer was quite clearly defined. Cash surpluses or deficits would be created at various stages of the business cycle process and in various divisions of the corporation. The treasurer's role was to manage these cash imbalance so as to minimize the cost of the deficits and maximize the value of the surpluses.

As with most other managers within the traditional corporation, the treasurer thus operated within a limited area and was largely a respondent to the overall strategic need for capital of the business. His ability to forecast future demands for resources – in this case cash – was limited, as was his ability to respond to events by the need to transact step-by-step via a number of external parties. In sales to receivables process, for example, the marketing function brings in the sales, the financial management department handles the receivables whilst the treasurer manages the cash at the end of the cycle. Without a single function to oversee and integrate the management of the end-to-end processes, it is extremely difficult to have a holistic view on a company's total working capital requirements.

Treasury now and in the future

The automation of certain processes and even electronic data interchange (EDI), which advances in computers quite recently allowed, did not change this picture fundamentally.

The Internet's ability to deliver information instantaneously to all points in the production line in its widest sense and of electronic commerce systems to effect payments – move cash – is unprecedented. For the first time, a world is created in which each part of the business cycle is connected, both within a corporation and among customers and suppliers. As a result, real – time information on the entire cycle is available to a company's management, customers and shareholders.

For the treasurer, the implications could not be more far-reaching. On the most immediate level it becomes clear that much of the traditional function of the treasurer will become automated. In the sales to receivables cycle, for example, with the transfer of value coincidental with the purchase or sale, the roles of the accountant and treasurer, in traditional terms, blur.

Much more importantly, the treasurer will need to become involved at a much more strategic level in every part of a company's operations. The cost of total capital employed is now much more widely recognized as the key measure of business performance. Forward – looking measures, which assess the ability of a company to generate future returns in excess of this cost, have been in existence for some years. The most common are shareholders value added (SVA) or economic value added (EVA). Companies using such performance measures have for some time sought ways to reduce not only the price of the capital they employ but also the amount of capital deployed. In particular, they have focused on exploring ways to reduce working capital. The spread of the Japanese invention of Just-in-Time (JIT) manufacturing has been symptomatic of the drive to squeeze cash out of the business cycle process. With e-commerce and the Internet now extending this concept to the quote to cash and purchase to pay processes, the treasurer is becoming the key integrator of the end-to-end business cycle.

But with the arrival of the Internet and electronic commerce, the focus on free cash flow and working capital has intensified to an enormous degree. The speed and detail of the information flow allow companies potentially to see much more clearly where capital is tied up in each part of the business, and to change processes in order to free this capital for deployment elsewhere.

Since it is the treasurer who fulfils this function, his or her role suddenly changes dramatically. From accepting, for the most part, the consequences to working capital which resulted from decisions taken by the marketing and sales divisions, the treasurer now has to work in close partnership with the sales, marketing and manufacturing functions to design internal processes to minimize their use of the company's capital. The e-treasurer needs to work alongside senior management in strategic planning to help executives assess both existing processes and new investments from an SVA or EVA perspective.

Treasurer's value creation with the advent of new systems and new services

Although most e-commerce initiatives fall outside the immediate sphere of cash managers, the changes they effect in business models and working capital management have a direct impact on cash management and the treasurer's value chain.

For example, the introduction of e-commerce establishes a common interface between the company and its suppliers or customers virtually anywhere in the world. The underlying disbursement and collection structures – who pays the supplier and from where, and whom the customer pays and where – can be managed with more freedom than before. Additionally, an in-house or outsourced shared service centre can be created as companies increasingly realize the benefits of outsourcing non-core functions.

With electronic bill presentment and the incorporation of a 'PayIt' button on a corporate Website, the entire receivables management process is e-enabled. A further enhancement of a treasurer's value chain is perhaps by outsourcing the process to a bank, integrating it with a securitization program. The treasurer, in effect, creates for himself a new role of managing the corporate funding and an integrated e-commerce strategy for his company.

E-commerce also has a direct impact on cash' liquidity and risk management practices. As buyers and sellers can be anywhere in the world, there are potentially more cross-border transactions to manage. New mechanisms such as electronic wallets and electronic bill presentment and payment facilitate more efficient collection and have the added virtue of reducing credit risk by automatically verifying the availability of sufficient funds. With the 'PayIt' button, for example, banks can directly debit the buyers' and credit the corporates accounts. Cash balance and cash flow information therefore becomes available much earlier than in traditional sales transactions, significantly improving the accuracy of cash flow forecasts. Not only can a treasurer readily know the working capital requirements, but with a shorter day-sales outstanding, the company's cash crunch can be alleviated.

Other important opportunities for value creation by treasury have been opened by e-commerce. Digital certification services likely to be introduced on the payables side will enable companies to buy from counter parties without the counter party needing to obtain credit assessment. On the receivables side, enhanced accuracy of cash flow forecasts significantly reduces the opportunity cost from unmanaged idle balances.

E-commerce greatly strengthens the treasurer's ability to manage risk. In B2C transactions, as we have seen, the availability of funds or credit can be verified in real time as the customer completes the order. Similarly, on the B2B side, the use of digital systems to certify counter party identities reduces credit and grade risk. Even foreign exposures in real time and risk can be cut substantially as treasurers are now able to identify exposures in real time and cover them immediately. Order matching – the real-time matching of production to customer orders – can further reduce risk or shift it to other parties. As a result, techniques to minimize, eliminate or transfer risk can be used more efficiently.

More than ever before, the treasurer plays an integral role in supply chain management. Global e-commerce engaged in buying and selling, such as Intelisys Electronic Commerce (IEC), enables companies to reduce the costs of procurement and streamline transactions by participants' obligations outside the community can be exchanged and offset at agreed exchange rates.

Moreover, on the trade finance front, Internet-based trade processing solutions enable a company to streamline the creation, processing and negotiation of trade documents and hence, quicken its accessibility to cash. In these cases, the treasurer become involved in the operations of the company with his role transitioning to more of a business manager function.

It is important to note that the treasurer alone cannot decide to transform the role of the treasury or working capital management in an organization. Even the best systems will not work if the human element on which they rely is ignored. For e-commerce based treasury to work effectively, the philosophy and practice of SVA and EVA have to be absorbed throughout the organization at every level of management – perhaps even to the most basic level of the workforce. This in turn means to incentivise employees along value-added lines and giving them a higher degree of autonomy to organize their own working practices. There that do manage the leap into 'e-treasury', however, will be the winners in a globalized economy and will be rewarded by rising share prices, higher profitability, better accessibility to cash and having more capital to invest. Corporates embracing the e-commerce revolution will emerge as the new generation of companies in the twenty-first century.

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The differences between the stereotypical predator and somebody like Piramal who is akin to an artist in terms of MandA activities is as follows:

Stereotype	Artist
Canny negotiator	Compelling persuador
Focused on details	Big picture man
Hands-on deal-maker	Strategy-maker
Post-takeover integrator	Total delegator

Source: Prof. S Shiva Ramu, Corporate Growth through Mergers and Acquisitions pp 246, Sage Publications 1998

Piramal's Tactics in Acquisitions

- Take decisions alone: Consultations can obscure the objectives.
- Never pay more than you want to: The benefits may not be worth it.
- Act as quickly as you think: delays can sour deals and attract competitors.
- Be patient if the timing is not right: A good acquisition is worth waiting for.
- Accede to unreasonable demands: It allows you to draw on your credit later.
- Do not get snarled in details: The nitty-gritty never needs top-down attention.

Source: Prof. S Shiva Ramu, Corporate Growth through Mergers and Acquisitions pp 246, Sage Publications 1998

Piramal's tactics may not be successful in other industries such as cars, computers and process industries. Piramal started to diversify from his family's Morarjee Mills textile business. He first moved from non-patented medicines and antibiotics to nutritional and biotechnology products. In the pharmaceutical industry, Piramal first acquired the Indian associate of the French multinational Nicholas group in July 1988. This was followed in 1993 by the acquisition of German multinational Roche's Indian subsidiary.

Source: S Shiva Ramu, Corporate Growth through Mergers and Acquisitions pp 246, Sage Publications 1998

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Mergers and Acquisitions — A Lexicon

Milan Shah[*]

MERGER: Merger can be defined as the combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

AMALGAMATION: Amalgamation involves fusion of two or more companies. After the merger, the two companies lose their individual identity and a new company comes into existence

ABSORPTION: Absorption involves fusion of a small company with a large company

ACQUISITION: Acquisition refers to the process in which a person or firm acquires controlling interest in another firm.

HOSTILE TAKEOVERS: An acquirer may not offer the proposal to acquire the target company's undertaking, but may silently and unilaterally pursue efforts to gain controlling interest in it against the wishes of the management. They are also called raids or takeover raids.

CONSOLIDATION: Also called a leveraged rollup, this is an investment strategy in which a leveraged buyout (LBO) firm acquires a series of companies in the same or complementary fields, with the goal of becoming a dominant regional or nationwide player in that industry. In some cases, a holding company will be created to acquire the new companies. In other cases, an initial acquisition may serve as the platform through which the other acquisitions will be made.

REVERSE MERGER: A reverse merger occurs when a private company that has strong prospects and is eager to raise financing buys a publicly listed shell company, usually one with no business and limited assets

SPIN-OFF: The creation of an independent company through the sale or distribution of new shares of an existing business/division of a parent company is a spin-off

CARVE-OUT: Sometimes known as a partial spin-off, a carve-out occurs when a parent company sells a minority (usually 20% or less) stake in a subsidiary for an IPO or rights offering

HORIZONTAL MERGERS: A horizontal merger involves a merger between two firms operating and competing in the same kind of business activity.

VERTICAL MERGERS : A vertical merger involves mergers between firms that are in different stages of production or value chain

CONGLOMERATE MERGERS: Conglomerate mergers involve merger between firms engaged in unrelated types of business activity

- ♦ Product extension mergers are mergers between firms in related business activities and may also be called concentric mergers
- ♦ Geographic market extension mergers involve a merger between two firms operating in two different geographic areas.
- ♦ Pure conglomerate mergers involve merger between two firms with unrelated business activities.

FORWARD MERGERS: Forward merger is a merger in which the target merges into the acquirer

REVERSE MERGERS: Reverse merger is a merger in which the acquirer merges into the target

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TRIANGULAR MERGERS: Triangular merger involves use of an SPV for undertaking forward or reverse merger

LEVERAGED BUYOUT: A leveraged buyout is a tactic through which control of a corporation is acquired by buying up a majority of their stock using borrowed money

ACQUIRER: An acquirer means any individual/company/any other legal entity which intends to acquire or acquires substantial quantity of shares or voting rights of Target Company or acquires or agrees to acquire control over the target company

TARGET: A Target Company is a company whose shares are listed on any stock exchange and whose shares or voting rights are acquired/being acquired or whose control is taken over/being taken over by an acquirer

DUE DILIGENCE: The process that companies, or more particularly their lawyers and accountants, carry out when one is about to acquire another.

POISON PILL: Strategic move by a takeover target company to make its stock less attractive to an acquirer

GOLDEN PARACHUTES: Unacceptably high compensation packages that must be paid to managers if they are forced to leave the firm

WHITE KNIGHT: Friendly acquirer sought by the target company to prevent unfriendly takeover

WHITE SQUIRE DEFENSE: Target Firm and White Squire implement a strategy to preserve the target firm's independence. This is done by placing assets or shares in the hands of a friendly firm or investor who is not interested in acquiring control of the target firm and will not sell out to a hostile bidder

GREENMAIL: Payment of a premium to a raider trying to takeover. By accepting the payment, raider agrees not to buy any more shares or pursue the takeover any further for a specified no of years

BEAR HUG: A hostile takeover attempt predicated on making an offer at a premium large enough to ensure shareholder support even in the face of resistance from the target's board of directors. The directors are bound by an obligation to the shareholders.

MANAGEMENT BUY-OUT (MBO): A private equity firm will often provide financing to enable current operating management to acquire or to buy at least 50 per cent of the business they manage. In return, the private equity firm usually receives a stake in the business. This is one of the least risky types of private equity investment because the company is already established and the managers running it know the business - and the market it operates in - extremely well.

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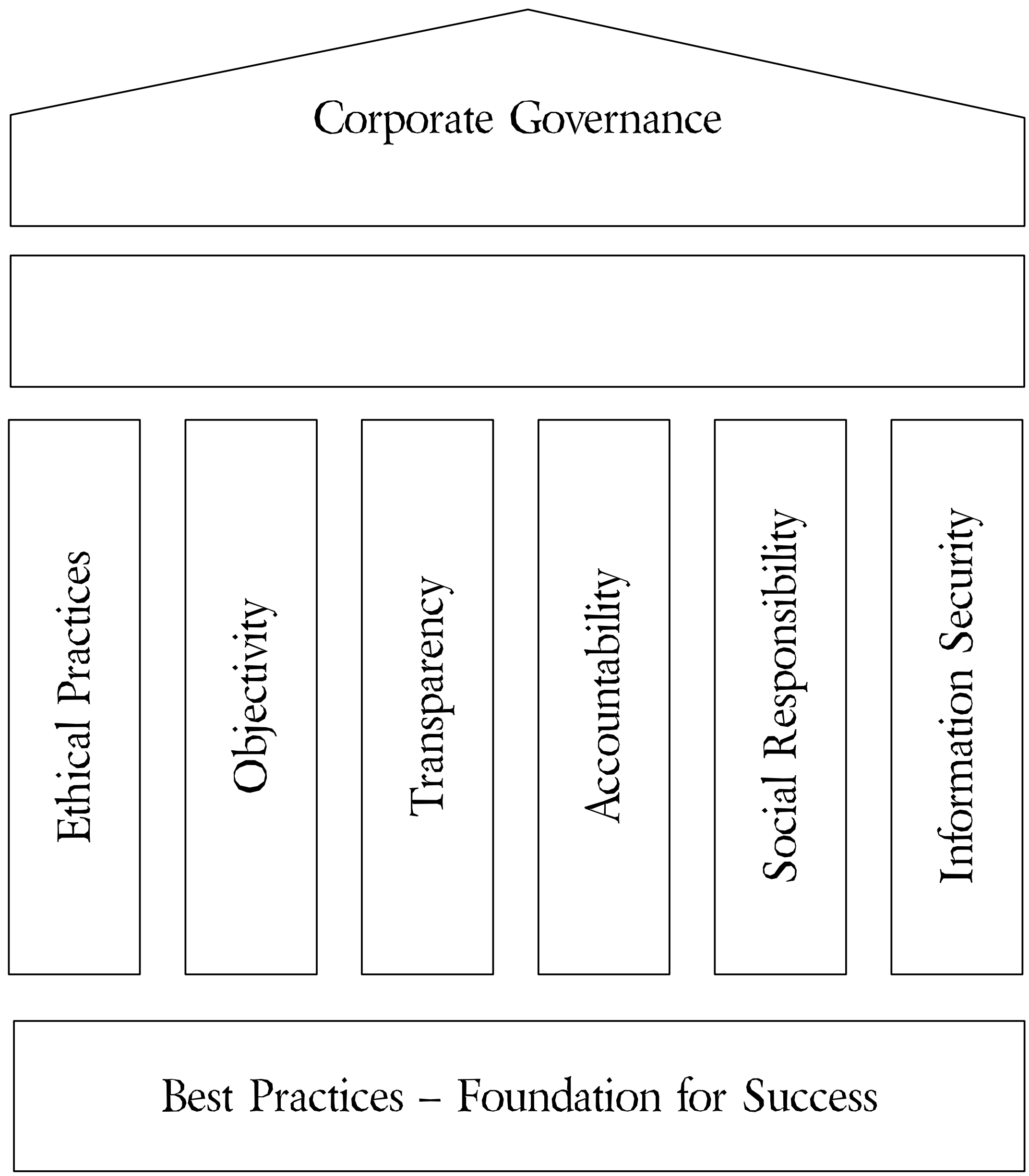
Framework of Corporate Governance

Source: Six Pillars of Corporate Governance



Corporate Governance Models

Shanti Suresh

"Be sure to lay out wide streets planted with shady trees, every other one of a quick growing veriety. Be sure that there is plenty of space for lawns and gardens. Reserve large areas for football, hockey and parks. Earmark areas for Hindu temples, Mohammedan mosques and Christian churches"

– Jamshetji Tata in a letter to his son Dorabji Tata

Introduction

The contemporary corporate failures in US and Europe have brought to the forefront the glaring gap between managerial compensation and corporate performance. Corporate crisis in Asia, has attracted attention to the fact that no country however successful or sophisticated the systems and models of governance are immune to financial misgovernance.

The issue of corporate governance arises because of the separation of ownership from control in Modern Corporations.

Corporate Managers, Promoters control the key decisions of the corporations.

In the present scenario with the separation of ownership and management the protection of the interest of the minority shareholders and other stakeholders is of utmost concern.

The problems of misuse of power, impropriety, unscrupulous use of investors finances needs to be tackled by the system. The structural, legal, social, political system must be so designed so as to be successful in detecting and preventing misappropriation and misgovernance.

The Corporate Governance structure details the rights and responsibilities of the different stakeholders of the firm such as the Creditors, Customers, Government, Society, Shareholders.

The purpose of Corporate Governance is to facilitate and stimulate the performance of the firm in maintaining a business environment that motivates the managers and the entrepreneurs to maximize the firms efficiency, return on investment, long-term productivity and growth.

It ensures that the firm conforms to investor's interest and expectation by limiting the abuse of power and the siphoning of assets. It also provides a system to monitor the board's performance to ensure corporate accountability and protect the interest of the stakeholders.

Several countries besides ushering in the era of liberalization have made deliberate efforts to reform their structural system, social and economic to enable them to effectively improve the system of Corporate Governance and counteract misgovernance.

Trucker (1984) identifies four crucial components of Corporate Governance:

- Setting corporate direction
- Involvement in executive action
- Supervision of management and
- Accountability

There are different models of Corporate Governance around the world.

These differ according to the variety of Capitalism in which they are embedded. The liberal model that is common in Anglo American countries tend to give priority to the interest of the shareholders. The co-ordinate model that one finds in continental Europe and Japan recognizes the interest of workers, managers, suppliers, customers and the community.

Both models have distinct competitive advantages, but in different ways. The liberal model of Corporate Governance encourages radical innovation and quality competition. In the US the Corporation is governed by Board of Directors, which has the power to choose an Executive Officers known as the CEO. The CEO has broad powers to manage the Corporation on a daily basis, but needs to get Board's approval for certain major decision such as hiring people, raising money, acquiring another company, major capital expansion or other expensive project. Other duties of the board may include policy setting, decision-making monitoring managements performance or corporate control.

In the macro level Corporate Governance compares systems such as the two-tier structure of Germany, the interlocking Keretsu of Japan and Chaebols of Korea and the Unitary Anglo American Boards or the split CEO/Board typical in the US/UK.

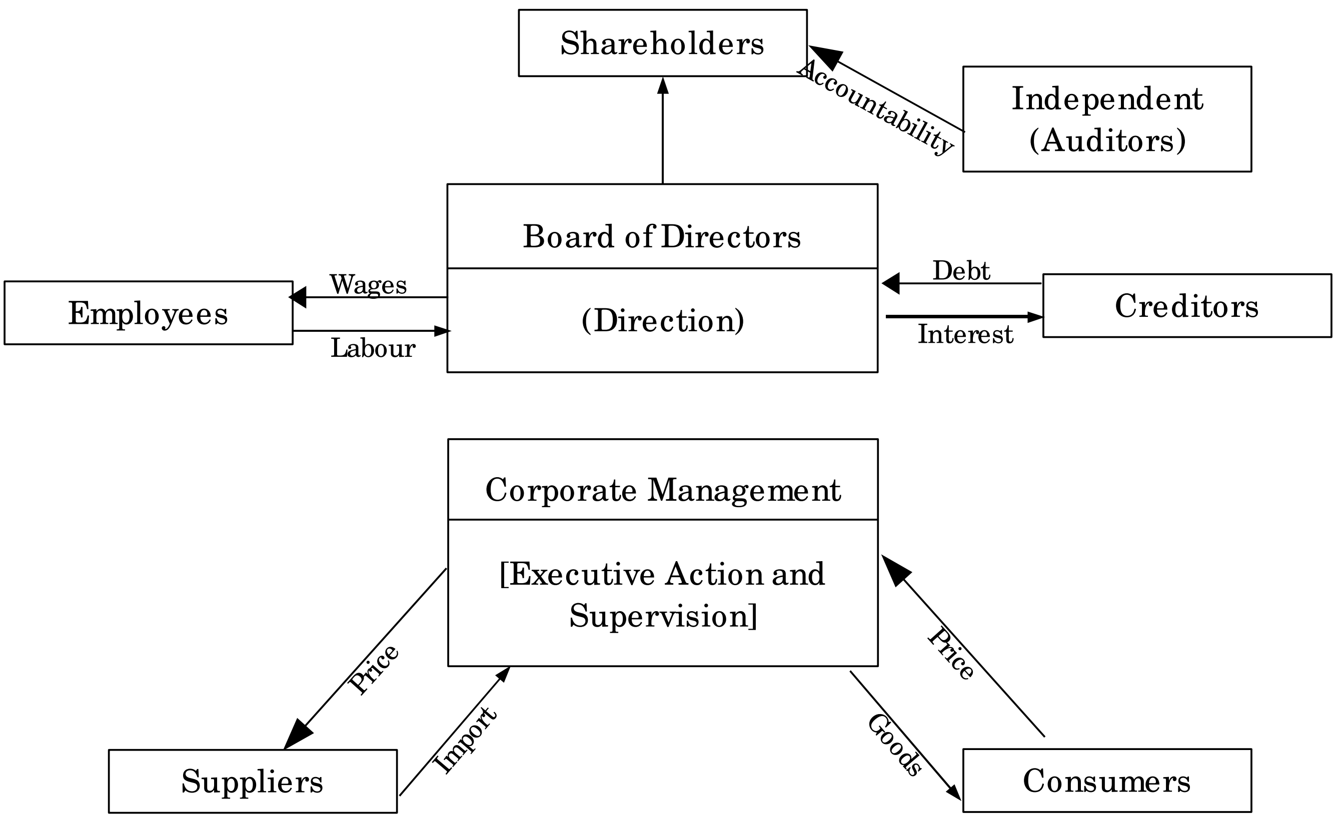
This paper looks at the various prevailing models of Corporate Governance in practice in:

- America
- Europe
- Japan
- Germany and
- India

A comparison is drawn between the various models in order to understand and study the practices to arrive at a dynamic model to facilitate effective governance.

The Basic model of Corporate Governance

In 1932 H.A. Berle, and C.G. Menas first documented the principle of separation of ownership from management, and stated the importance of accountability as a component of corporate governance to protect the interests of shareholders. Managers should be accountable to the shareholders to ensure that the managers do not waste the resources of the company in ways that serve their own interests, many times at the cost of the Interests of the shareholders. The basic model of corporate governance can be shown as follows:



Basic Governance Model

An important assumption in the basic Model of corporate governance is that the shareholders provide the risk capital and they are the residual claimants. Creditors and employees get a fixed claim on the assets of the corporation and gains or losses from good or bad performance are borne by the shareholders. Their claim stands last in the line and therefore they are the residual claimants. Because of the principle of separation of ownership from management the shareholders entrust the management of the company to the Board of Director. Consequently the parties involved in corporate governance in this model are only the shareholders and the Board of Directors. Therefore, it also follows that maximizing shareholders' wealth would be the same as maximizing the total wealth created by the firm.

The claim that the shareholders are the only residual claimants is, however, disputed on certain grounds, Blair (1995) argues that limited liability of shareholders contradicts the assumption that shareholders are the residual claimants and therefore residual risk bearers. If a company is not in a position to meet its debt service obligations then the creditors become the residual claimants and they get power over company managers during bankruptcy and consequently shareholders lost their power. Thus there is a link between residual claims, residual risks and power to control. It can be argued further that the power and rights of the creditors during the distress situation be extended to the situation when the company is not in distress. The institutional creditors, many a times enjoy the right to nominate one or more directors on the board. Thus, the position of creditors as residual claimants is recognized and their role in corporate governance is, however, more or less passive when the company is a profit making organisation.

Blair further argues that employees also inevitably bear many of the risks associated with certain kinds of investments especially investments in human capital. Hence, when investments in highly specialised human capital are important to the way that a firm creates wealth, employees as well as shareholders are likely to be residual claimants and therefore residual risk bearers and should have power to control.

In firms where highly specialised skills are important employees may be as highly motivated as shareholders to see that the firms resources are used efficiently. Moreover, employees of such enterprises exercise de facto control over many important decisions and because of their inside knowledge of the business their stake in its success may be much better situated than distant and anonymous shareholders' to act as the monitors of the management.

European Model of Corporate Governance:

In many European countries particularly in Germany and Netherlands, the system of 2-tier boards, also known as insider system of corporate governance is prevalent. In this system equity ownership is concentrated in banks, wealthy families and other firms, often key suppliers and consumers.

Employees being stakeholders in the firm are also a party in corporate governance. Two-thirds of the pension funds assets are invested in the employing company, thus giving the employees financial stake in the company along with their stake in human capital.

Company is governed by two boards: One board acts as a Supervisory Board and ensures that the demands of accountability are fulfilled whereas the Management Board provides direction and ensures executive action.

In this model a company is monitored not only by watching the share prices but by observing closely how the company performs in its key relationships. In Germany in a company employing more than 2000 employees, half of the members of the Supervisory Board are elected by the employees. The other half of the Supervisory Board is many times controlled by banks who have enough stock holding in the company. The chairman is also commonly a representative of the bank. Trading partners and other related companies are also represented on the board. Company is seen as a combination of various interest groups and therefore maximization of the wealth of shareholders alone is not the goal. Instead, interest of the company as a whole is the key concept. European Commission has advocated this model and accordingly legislation is passed in some member countries.

Japanese Model of Corporate Governance

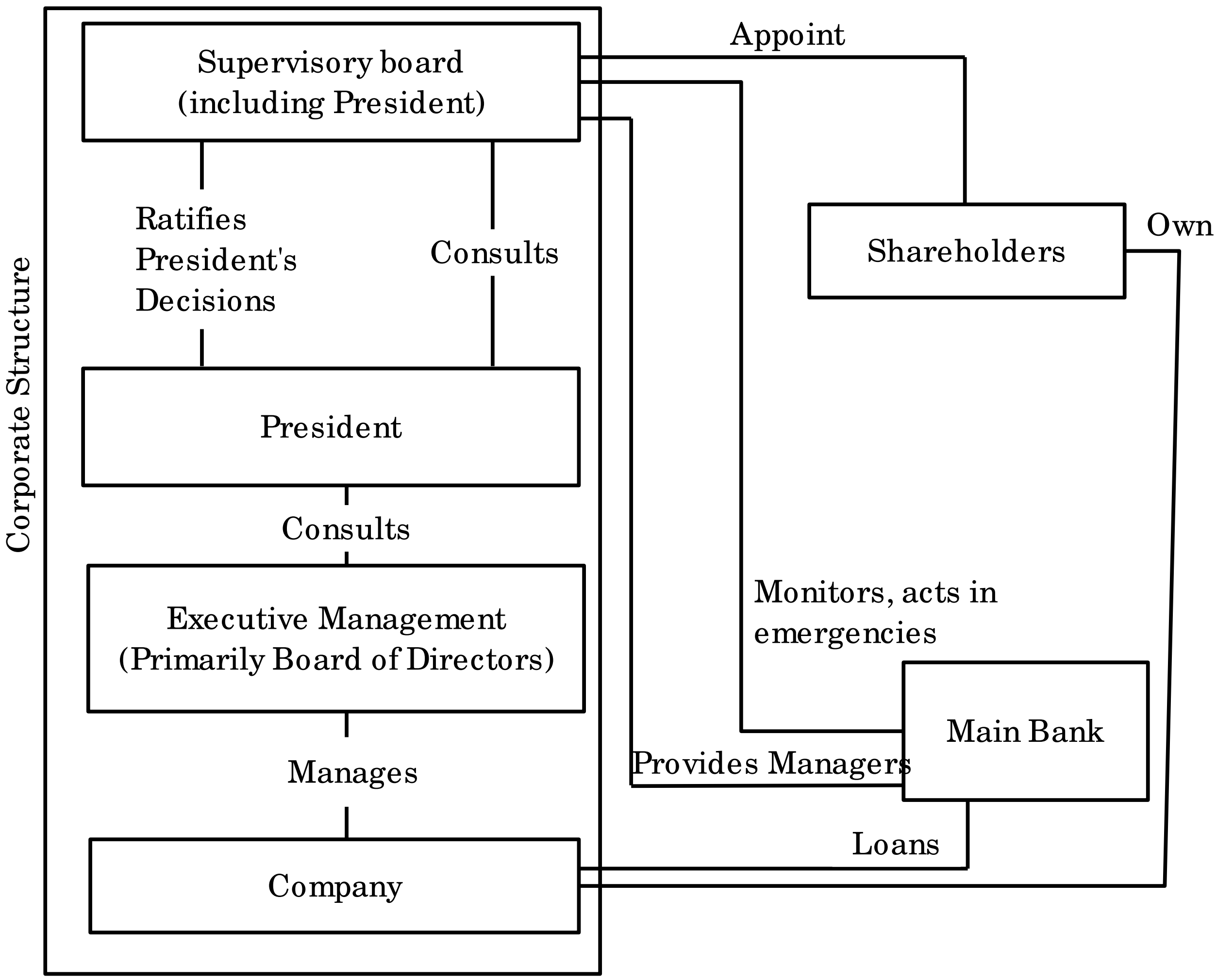
Japanese model of Corporate governance is based more on cultural trends and customs rather than statutory provisions. Hiroji (1997) calls it "Companyism" and explains that it is a subtle blend of both Capitalist competition and corporatist or socialist relationships. Business relationships in

Japan are not contract specific, short-term relationships but these are long term relationships.

Company's shares are generally held by banks, major suppliers and major customers also, in addition to a large number of individual shareholders. However, the separation of ownership from management is carried to the limit in Japan. The companies are really controlled by employees rather than by shareholders. Though there is no statutory provision for giving the employees the rights of governance. Life time employment and seniority based promotion-are two important features of corporate personnel policies. Most of the directors and top executives rise from the ranks and many of them, are the former union leaders.

Management rarely aims at high profits but instead its primary goals are maintaining employment, increasing market share or developing new products or technologies. As the stakeholders like creditors, suppliers, customers are also shareholders, the organisational objective not merely maximizing the rate of dividend and protect the short term interests of shareholders but the aim in long term improvement in productivity and improving the market share. The employees are committed to the corporation and play a positive and very important role in its development.

The social culture emphasis is more on cooperation than on litigation and the same is reflected in corporate governance also.



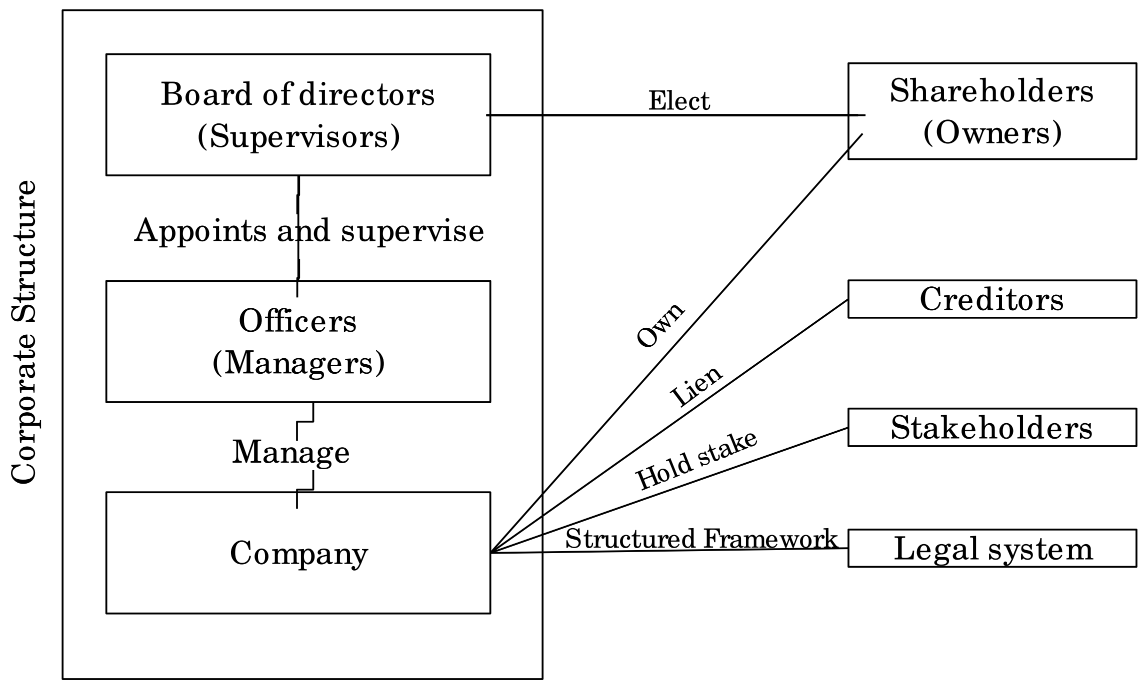
The Japanese Model

American Model of Corporate Governance

This model is called the 'outsider model' as compared to the 'insider' model operating in Western European countries and Japan. In United States and U.K., the equity ownership is dispersed among a large number of individual and institutional investors. The shareholders have the voting rights and they elect the Board of Directors. In a typical U.S. company, majority of the directors are non-executive, outside directors whereas in U.K. majority directors are executive, inside directors. Company's main aim is maximizing the wealth of the shareholders and other stakeholders do not play any major role in its governance. Representatives of the workers on the board, or Ralph Nadar representing the consumers on the Board of General Motors are only exceptions rather than a general rule.

In the last two decade considerable public attention had been drawn to the operations of the Board of the publicity traded large corporations and questions about their accountability and audit had been raised as stated in the beginning. As a result, appointment of nomination committee, compensation committee and audit committee has become a common practice in these countries. Similarly, adherence by the board members to an accepted code of conduct is also now insisted upon, if not by law, by the rules of stock exchanges.

Competition from German and Japanese companies, however has compelled the corporations in the United States and U.K. to rethink about the governance pattern and also to reset the corporate goals.

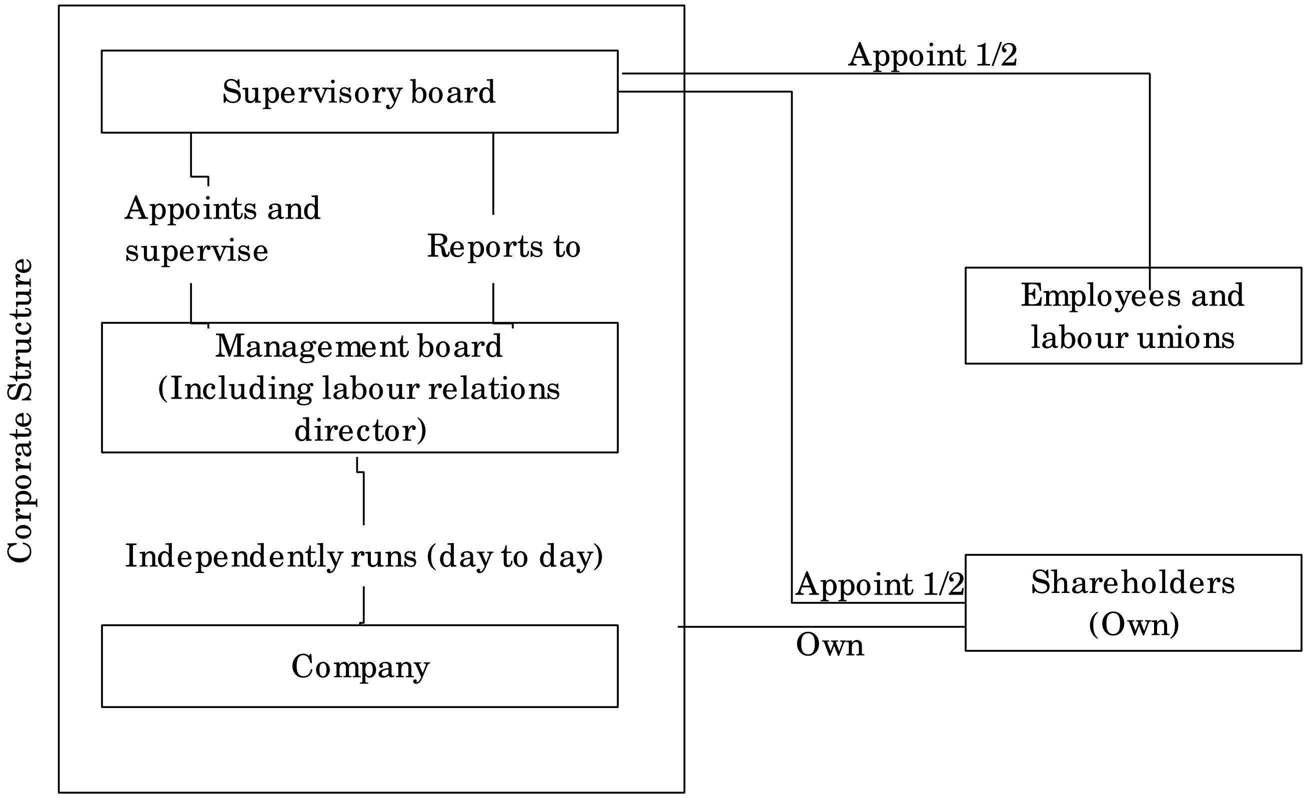


Anglo American Model

German Model of Corporate Governance

In this model although the shareholders own the company, they do not dictate the governance mechanism. The shareholders elect Fifty percent of the members of the supervisory board, while the other fifty percent are appointed by the labor unions. This system implies that employees and labor are not just the stakeholders but they enjoy a share in governance. They are equally responsible for the policy that has to be implemented by them for the profit of the organisation.

The supervisory board appoints and monitors the management board. There is a reporting relationship between both the boards although the management board independently conducts the day-to-day operations of the company. One important feature is that the labor relation director is represented on the management board. Therefore, the governance mechanisms have imbibed workers' participation. German banks can own corporate stock unlike the U.S. banks. Although the German Universal Banks as a group cast 54 to 64 percent of the votes in 1992 without absolute majority there is no evidence that they had acted as effective institutional monitors on behalf of the shareholders.



German Model

Indian Model of Corporate Governance

The Indian model is an amalgam of the Anglo-American and German models. The Indian corporate can be typified into three distinct patterns i.e. Private Company, Public Enterprises and Banks

The pattern of private companies is mostly that of closely held or dominated by a founder, his family, and associates. The role of external equity finance is small; the business is financed by retained earnings and heavily by debt like Tata, Birla and Reliance group etc.

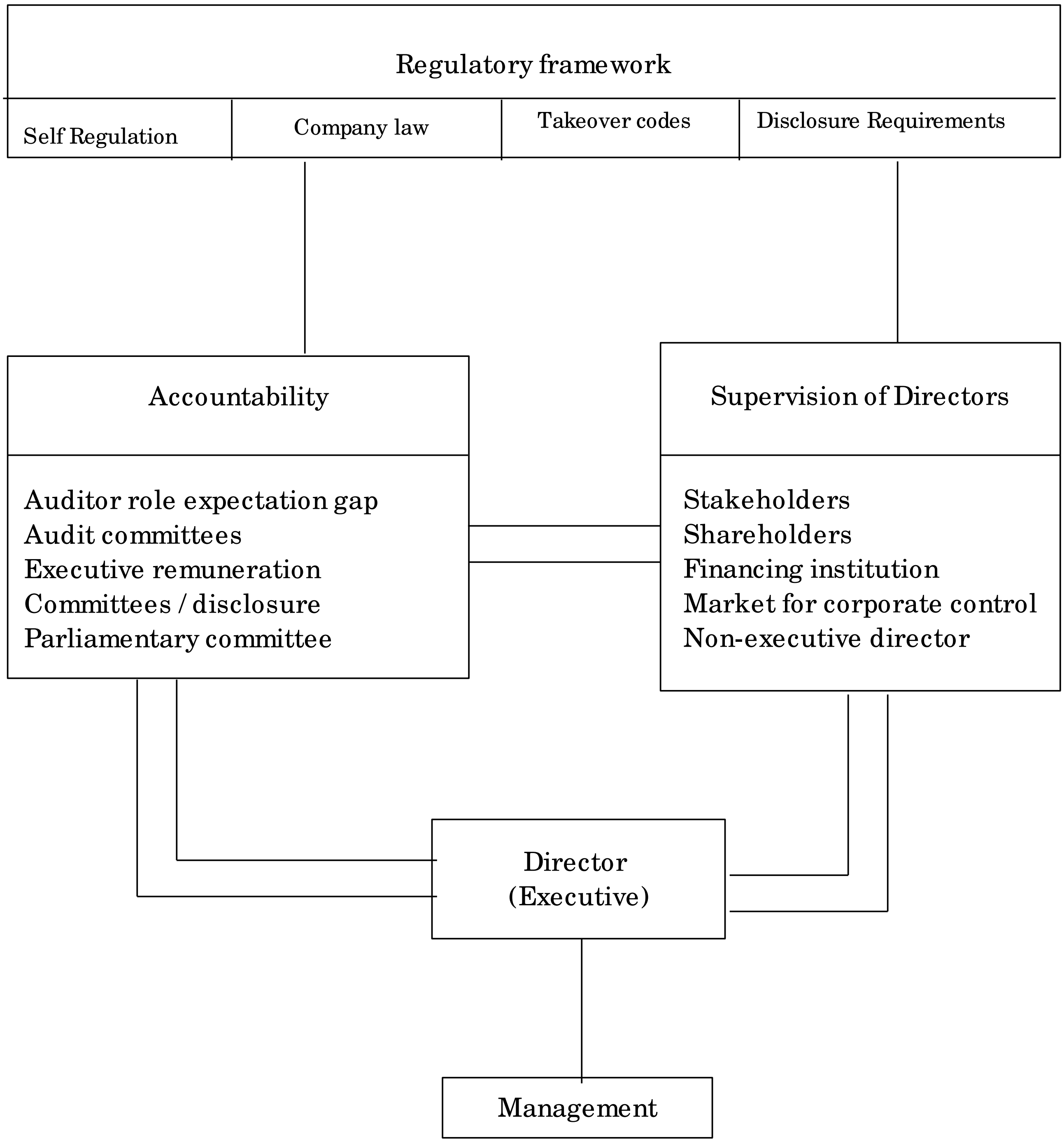
In respect of public enterprises, the central/state government forms the board and even where divestiture has taken place, hold of the government continues to be dominant. Here, the issues concerning protection of stakeholders generally take a back seat. Large corporations are, therefore, often run more in the interest of the government than in the interest of efficiency and maximization of aggregate shareholder wealth.

The appropriation of corporate opportunities, excessive compensation, and consumption of managerial perks do not merit much discussion of the board as they are decided externally by a government policy. Participation of workers is nominally represented by the presence of a representative of a recognized trade union, sometimes both of the workers and officers separately where two separate unions exist-whose voice does not represent the concerns of the organisation.

Governance models of the sub-sectors like insurance, banking, non-banking finance companies etc., in the Indian context are kept out of the purview of discussion in this paper in view of the complexity of laws, rules, and regulations that bind those structures.

In coordination with the Confederation of Indian Industry (CII), Federation of chambers of Commerce and Industries (FICCI), and other apex industry organisations, the Department of Company Affairs is in the process of evolving a draft corporate governance code.

Structural changes in corporate governance call for a paradigm shift in the constitution of board. Admittedly the processes are only the means to an end and bringing into core the thoroughness, openness and objectivity in the reviews of systems would be very crucial to proper governance.



The Indian Model

Comparative Analysis of Different Corporate Governance Models

Anglo-American Model	Continental European Model	Japanese Model	Indian Model
AIMS			
System of seeking profits for 'individualistic-oriented' shareholders	System of seeking profits for 'pluralistic-oriented' constituencies	System of seeking profits for 'pluralistic-oriented' constituencies	System of seeking profits for 'majority shareholders' or promoters' in a complex structure of group companies
FRAMEWORK			
- Single-tiered board of directors - Institutional holdings.	- Cohesive group of insiders' with long-term stable relationships with the company e.g. suppliers, banks, allied industrial concerns.	- System of support by main bank - Stabilization of share-holders by cross-holdings with other companies - It consists of a dual structure: the board of directors, which carries out the functions of strategic decision-making; and the board of auditors, which audits management's execution of business activities.	- Single-tiered board of directors - Role of nominee directors of FIs in the boards - Founding families and their allies usually exercise control over an extensive network of listed and non-listed companies.
ROLE OF STATE			
None	Commercialization of corporate governance of SOEs is a twin development to privatization in many countries. The state as owner concentrates on maximizing shareholder value facilitated by floatation of SOEs	Important sectors of economy still under state direction.	Through the state owned financial institutions and banks
MODE OF ENFORCING GOVERNANCE			
By buying and selling company shares	Marginal	Marginal	Marginal
FACILITATING			

Anglo-American Model	**Continental European Model**	**Japanese Model**	**Indian Model**
Facilitating buying and selling of company shares	Marginal	Marginal	Marginal, as only a minority stake is floated on the local exchanges
FUNCTIONARIES RESPONSIBLE FOR GOVERNANCE			
Mutual funds, pension funds and insurance companies - operate on the principle of portfolio diversification, they have no interest in running the company and have no other relation to the company except for their financial investment	'House-banks' responsible for most financial transactions of the company	Main bank was expected to assume a leadership position within the group	Public owned FIs, banks, Mutual Funds
MODE OF OPERATION			
- Accountants, credit rating institutions, Investment bankers, Financial media, Research, CG Analysts - Interlocking boards - Inter-corporate investments - Markets for corporate control	- Systems of inter-company holdings - Public equity markets are small. A lot of equity is financed non-publicly by families who have some degree of long-term commitment to the firm.	- Public equity markets are large, and the majority is held by shareholders that have some degree of long-term commitment to the firm. These include institutional investors, major customers, and suppliers.	Interlocking boards Intragroup investments Private placement of stocks Convertibility covenant in the loan agreements of Fis - Limited role of mergers and takeovers
EXERCISING CONTROL			
- Through voting rights shareholders select members of board	- Parallel devices such as shareholder agreements, discriminatory voting rights.	- Through the board of directors	- Minority ownership (of group companies by the apex company)
IMPLEMENTATION OF GOVERNANCE			
- By buying and selling of company shares and thereby exposing the company to takeovers	- By owning an outright majority of voting shares or by owning a significant minority holding	- By owning an outright majority of voting shares by institutional investors, major customers, and suppliers.	- Majority ownership (of apex company by controlling family)
GOVERNANCE STYLE			

Anglo-American Model	Continental European Model	Japanese Model	Indian Model
- Providing feedback to shareholders	- Questioning, judging and supervising management	- Governing, supervising, and monitoring management	- Supervising management of all group companies
SCOPE OF GOVERNANCE			
- Developing plans for a firm's interaction with the external environment (e.g. strategic alliances, profit strategies, financing)	- Establishing rules and norms to guide a firm in achieving its strategic goals.	- Consensus management to guide a firm in achieving its strategic goals.	- Formulating policies of each subsidiary by the central holding company based on the cash needs of other companies in the group
CONSEQUENCES OF THE SYSTEM			
- Conflict of interest between majority and minority shareholders. - Legal reforms and their effective implementation	- Selective exchanges of information among insiders leading to lack of transparency	- Internal employees occupied positions of auditors which led to an inability to prevent improper actions. - The number of directors is large which led to an inability to debate management policies of companies. Almost all directors are part of the keiretsu and are unwilling to voice opposition to decisions of the top management.	- Directed credit by FIs led to credit rationing, a very low capacity to analyse credit risk and inadequate regulatory supervision of the banking and FI sector. - Deficient market exit arrangements - Insolvency legislation is rarely used as a means of reallocation of resources. - The capital structure of group-affiliated firms is usually incompatible with their asset structures - Due to group complexity, detecting opportunistic behaviour by group-affiliated firms is difficult.

Conclusion:Dynamic Governance Model

In the rush to establish global standards it is a concern that corporate governance is seen as an end in itself rather than one component, albeit an essential one, in totality which goes to make up a company's and a nation's economic performance. When viewed from this limited perspective, it takes little for the governance debate to stray back into the prescriptive arena.

The primary objective of sound corporate governance must be to contribute to improved corporate performance, to the integrity of financial markets and hence to the international competitiveness of an economy, all of which must be judged against the criteria of wealth and employment creation. Sound corporate governance is a necessary but not sufficient condition to achieving world-class performance. The economic settings of the economy, along with cultural and behavioural attitudes of shareowners, directors, management and workforce, and institutional arrangements, are equally if not more important.

World-class corporate governance standards will be to no avail if the strategic direction of the company is wrong, if strategy implementation by management is poor, if the quality of its directors is inadequate, or if institutional structures in the economy restrain, rather than encourage, performance.

The solution is not prescription, but rather an enabling system which encourages prudent risk taking and corporate performance. Such a system requires strong regulators able to act swiftly and effectively against those who transgress but does not impose an onerous legislative burden on the honest business people who make up the overwhelming majority of the corporate sector. It should be based around sound principles rather than black letter law, where regulator tread lightly but carry a big stick.

If we are to successfully move down a non-prescriptive self-regulatory path in the search for international competitiveness a dynamic governance model will emerge by:

- Building trust
- Earning Freedom from Excessive Regulation
- Investor Performance
- Flexibility in Governance

We need strong boards, strong managements and strong investors working with a creative tension to achieve world-class performance. In the final analysis, corporate governance is about establishing a structure within which creativity can flourish. As part of that process there is a need for a broader strategic alliance between shareowners, boards and managements to further align their respective interests and accelerate reform across the economy, not only in the arena of corporate governance.

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What a pity?

"Corporate governance is about the nitty-gritty of how a company fulfuls its obligations to investors and other stakeholders. It is about commitment ot values and ethical business conduct and a high degree of tranparency"

Source: Global Trust Bank Corporate Governance Code

A CRISIL study on Corporate Governance – *"Adapt before you adopt"* extracts

"Any governance model or frame work to be successful and reliable, has to pass the test of providing the desired outcome viz sustainable value creation for all stakeholders and wealth maximisation for shareholders over a long time frame."

The salient features of the CRISIL report are as follows:-

1. Cross -Cultural Differences in Corporate Governance across the Global network are different. The report talks about India versus U.S. However one could also compare other important models particularly Germany and Japan. When models of Corporate Governance are put in juxtaposition the comparative and contrasting features will stand out.

2. Mechanical transplantation of Corporate Governance models cannot add value to the share holders and stake holders. Corporate Governance practices are driven by, as the CRISIL study points out, operating environment size and ownership structure.

3. The stages of evolution of economic activities are different in different countries. Hence Corporate Governance which is in different stages of evolution in different parts of the World will take different forms. As the CRISIL study points out "Adopting a uniform code for the entire globe is a misplaced effort" . As the study rightly points out the optimal path to allow Corporate Governance to progress is to evolve country specific framework, context specific expertise, and corporate specific practices. Keeping benchmarking in vogue, global best practices can be constantly studied to assay local practices and its progress to conform with global norms .

4. Maximisation of shareholders equity and stakeholders interest could be the key factor to evaluate the success of Corporate Governance

5. The difference in ownership pattern is an important factor which drives Corporate Governance model. In the U.S shareholding pattern is invariably widely held unlike in India where family managed businesses have large shareholding resulting in a closely held environment. In the Corporate sector, Government is an important factor being the largest shareholder, in 13 of the 50 top Indian Companies. Indian business houses Tatas/Birlas/Ambanis/Thapars/Singhanias et. al. have large shareholding in many companies. The Governance model applicable to Public Sector Units is different from models relevant for closely held or widely held companies.

6. NYSE listing agreement does not make it mandatory for Independent Directors to be in majority on the board in controlled Companies. SEBI needs to view this in proper context and allow governance locally to integrate into good global governance practices.

7. The size of the board depends on the business operation in terms of regional spread diversity, size and performance. Normally Indian Companies have smaller boards than their counter parts in the US.

8. Corporate Governance issues hover around CEO/Chairman. In the US it is believed that the same position can be held by the same person. European Companies prefer to split the positions and perceive their distinctness. In India there is no regulation on this behalf. However, 60% of the top 50 Companies have separated the positions. In the Public Sector Units the CEO/M.D. positions are usually combined .

9. Corporate Governance is all about identifying competency attributes, train directors for the future, CEO evaluation, succession planning for Senior Management, training and development to improve competency attributes of existing and future directors.

10. In Corporate Governance the buzz words are transparency, disclosure/accountability. In the US important areas are auditing, internal control, insider trading and management respectively. In India the relevant areas are. Section 211 Schedule VI of Companies Act, other disclosures requirements in company Law, accounting standards and clause 49 of SEBI . The focus is on related party transactions,mergers and takeover, promoter linked company or business with listed Companies and valuation of business.

11. India has to evolve its own Corporate Governance model keeping in mind the local perspective as well as the local practices. There is not much to gain by mechanical transplantation or imitation because the foreign models would be alien and functionally unrelated to our needs.

Source : FE investor, Sunday November 06, 2005 – CRISIL STUDY

Compiled by Shri Deepak Gokhale, student of EMBA II year (2005-06) under the guidance of Dr. Guruprasad Murthy.

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Corporate Governance – Definitions

"Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" - The Journal of Finance, Shleifer and Vishny

"Corporate governance is about promoting corporate fairness, transparency and accountability."
J.Wolfenson, President of the World bank as quoted by an article in Financial Times, June 21, 1999

"Corporate governance – which can be defined narrowly as the relationship of a company to its shareholders or, more broadly, as its relationship to society …." - Financial Times 1997

"System by which companies are directed and controlled". - Cadbury Committee Report

"The role of the board should be that of governance to ensure that corporate direction and management are executed in the best interest of the shareholders, to ensure that shareholder value is not eroded and that the corporation fully recognises and bears its social responsibility. To be effective, the board needs to focus on :

- *Strategic direction and implementation*
- *Monitoring financial performance*
- *CEO development*
- *Evaluation and succession*
- *Monitoring legal and ethical performance"*

- Ratan Tata on Corporate Governance

US GAAP V/S Indian GAAP

"The key to good Governance is transparency, true and fair disclosure and accountability"

Sr. No.	US GAAP	Indian GAAP
1	In case of Mergers and Amalgamations consolidated position is reckoned from date of Deal	In India it is done from date of legal effect e.g. Reliance Industries
2	Profit or loss on sale of shares (as Investment) is adjusted directly to net worth and not taken to Profit and Loss Account.	This is included in Profit and Loss Account and can influence profit or loss for the year substantially
3	Material effect is considered as more important that technical difference	Presentation is driven by British practices
4	Research and Development expenses are charged to year when incurred	Research and Development expenses are amortised over beneficial years
5	Indirect expenses in acquisition of assets e.g. Interest on borrowed funds, are not capitalised with assets, but charged to accounts, In the year when incurred	Interest capitalisation is allowed and depreciation is also allowed on it, when added to the asset Profit implication of this is different for current and future years. Over statement of assets also takes place.
6	Liability for leave encashment for employees is valued on actual expense basis	Actuarial value is taken for consideration of provision for liability of future leave encashment
7	Compensation offered on Voluntary Retirement Scheme is charged in the year of acceptance by employees	Voluntary Retirement Scheme compensation is allowed to be amortised over 4-5 years subsequent to Voluntary Retirement Scheme year.
8	Compensation cost of employees stock options is amortised over the vesting period and accounted for	Difference in market price and price at which stock option offered to employees does not require separate accounting
9	Investment in securities is classified separately as tradable (at fair price to market) and long term (as cost of purchase)	Demarcation of securities as current or permanent is not very clear except for Banks
10	Expenses on issue of Debt instruments are amortised over debt period	Debt issue expense can be adjusted against share premium account or is amortised over certain no. of years.

Legend: GAAP – Generally Accepted Accounting Principles

Source : Economic Times July 2003. Courtesy: Compiled by K. K. Nijasure

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Business Ethics, Human Values and Economic Prosperity

Lt Cdr Jaswant Singh

"No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people" — J. R. D. Tata

Definition of Ethics:
a) the discipline dealing with what is good and bad with moral duty and obligation;
b) a set of moral principles or values;
c) a theory or system of moral values;
d) the principles of conduct governing an individual or a group.
Source: Merriam-Webster's Collegiate Dictionary, 10th Edition 2001, pp. 397

Definition

The word 'Ethics' is derived from the Greek adjective 'ethica' which comes from the substantive ethos. Ethos means customs, usages or habits. Ethics is also called moral philosophy. The word 'moral' is derived from the Latin substantive 'mores' which also mean customs or habits. Customs are merely habitual ways of acting. They are also ways approved by the group.

Thus literally 'Ethics' means the science of customs or habits of men. It is the science of habitual conduct of men. Habits are the expression of settled disposition of the will or character.

Ethics is the science of rightness and wrongness of conduct. Conduct is purposive action, which involves choice and will. It is the expression of character which is settled habit of will. The will is self in action. Thus Ethics is the science of human character is expressed in right or wrong conduct.

Ethics is not concurred with the origin and growth of conduct like psychology. It is concurred with evaluation of conduct with reference to an ideal. It seeks to determine the supreme ideal involved in human conduct. It seeks to teach us how we can pass correct moral judgements upon human conduct, consider it as right or wrong, with reference to the supreme ideal of human life. Ethics is the science of the ideal involved in human life.

The Nature of Ethics

Ethics is a normative science. Ethics is a science, which is a systematic knowledge. It deals with human conduct together with the inner volitions and their motives systematically. It is a science in so far as it depends upon observation, classification and explanation of human conduct with reference to an ideal.

Ethics is not a positive science, which is systematic explanation of causes and effect of things. A positive, natural or descriptive science deals with with facts and explains them by their causes.

It is concerned with judgements upon conduct, its rightness or wrongness. Ethics is not concerned with human conduct as it is but as it ought to be. It passes judgements of value upon human actions with reference to moral ideal. It is concerned with judgements of fact, but with judgements of value. Judgement of fact are judgements of what it is? Judgements of value are judgements of what ought to be. The former are called factual judgements. The latter are called critical or appreciative judgements. Thus Ethics is not a positive science but a normative science.

Normative sciences seek to determine norms, ideals or standards. There are three ideals of human life, viz. truth, beauty and good. These are the supreme values of human experience They correspond to the three aspects of our conscious life – knowing, feeling and willing. Logic is concerned with the general conditions involved in the pursuit of truth. Aesthetics is concerned with the creation and appreciation of beauty. Ethics is concerned with what is right in human action in the pursuit of good. Logic is the science of truth, Aesthetics is a science of beauty and Ethics is a science of good.

Truth is the ideal of knowledge. Good is ideal of will. Beauty is ideal of feeling or emotion.

There is a difference between a normative or regulative science and a natural, descriptive or positive science. The former deals with judgements of value while the latter deals with judgements of facts.

Business Ethics

Thinking in terms of business ethics is really thinking leadership. The content and context of corporate leadership has changed immensely in modern times. Leadership in business today requires skills that were not recognized as much in the past. Business leaders are team leaders who recognize that talent is not located at the top. According to fortune magazine, the top 15 Americans companies also figure amongst the twenty most loved companies in the country. So somewhere it pays to be ethical but how does one go about it.

In the case of business ethics it is imperative that the programme be top driven. The senior most executives must be committed to business ethics and should be willing to lead by example if they are serious about making a difference in their establishments. The appreciation of business ethics does not depend on the type of industry, but really the commitment at the top. Therefore, to begin with, it is worthwhile to make clear what business ethics is and what is not from the following statements:

a) It is about the establishment of transparent norms of interrelationships and not about morality:

   Morality can be individual set of commitments and a person can live with them even when they are rejected by the others. But one cannot be ethically alone. Ethics brings in other people for the realization of self.

b) It is so socially aware entrepreneurship and not just philanthropy:

   An ethical business enterprise demonstrates it's social concern through its internal functioning and is not limited to acts of philanthropy.

c) Is respectful of the stakeholders and not just the shareholders:

   The stakeholders include not just the shareholder, but also employees, customers, creditors as well as dealers.

d) Is concerned with a code of ethics and not just a code of conduct:

   When the code of conduct flows from the code of ethics, it gets internalized as a normative value. It no longer remains an external instrument of control.

e) Is about establishing employees' morale and not just about establishing compliance:

   Employee morale depends a great deal on commitment to the specific culture of the organization and not just to formal agreements and negotiations.

f) Is committed to quality arising out of work satisfaction and not just for reasons of profit:

   Quality production is best ensured by making sure that employees are intellectually contributing to the work process and not just following orders. This helps to sustain profits more enduringly than advertising, cost cutting or purely technological inputs.

Ethics is making all the difference

(a) Ethics is the buzzword of the 1990s. Some think it is a fad and many take it seriously. Ethics however, is not new and it has been with us for thousand of years, except that it's importance is dawning on us only now. Our ancient literature is full of ethical and moral preaching. Be it Vedas, Puranas, Ramayan, Gita or even the religious books of other religions like Bible and Koran etc., all are full of moral values and ethical code of conduct.

(b) Business ethics promotes good and viable business by generating significant support structures within organization as well as outside it. The significant stakeholders in any business ethics programme are the shareholders, workers, managers, customers, dealers and creditors. In short, stakeholders comprise all those who share a legitimate interest in the organization/firm.

(c) Business ethics adds value because its effects are felt within the organization as also among significant stakeholders, such as customers, who are outside it. Internally, business ethics programme promotes sustainable creativity among, and commitment from workers and management. Externally, complying with business ethics helps the company relate better to its customers, its dealers, and to the social and physical environment. Together this allows an enterprise to project itself favourably to all its stakeholders. Without such an endorsement businesses today are severely constrained in realising their potential.

(d) Business ethics emerged in the corporate world in response to the fast changing conditions under which enterprises must function in modern times. Customers are more demanding, skilled professionals more exacting, and there is an overall social insistence that business observe norms of civic responsibility.

A business ethics compliance system ensures that:

- Workers and management in an organization understand the mission and vision of the company.
- Both upstream and downstream communication between levels and functions is wired optimally.
- The company gets appropriate feedback from its customers, dealers and creditors to consolidate its future growth
- The company benefits financially from the support provided by it to its social and physical environment.

A Checklist for Business Ethics

An organization is committed to business ethics when it has the following:

- Vision/mission statement
- Core values
- Business practice policy
- Code of conduct
- Grievance counselling mechanism
- Ethical dilemma resolution workshops.

Needless to say, these have to be arrived at with the full support of the top executives, managers and subordinate staff in sustained dialogical sessions.

Guidelines for Business Ethics in Practice

Why do it:

– To make sure that the organization holds a leadership position in the eyes of the public.

– To increase the intellectual capital of its employees.

– To bring about greater corporate integrity and transparency at all levels.

– To institute a system that binds every functionary of the organisation into an ethical unit.

– To resolve ethical dilemmas in accordance with company values.

Ethics in Corporate Governance

We Indians are passing through a critical phase of cultural change. Everybody wants to be modern without understanding the real values of being such. Our vulnerability to western culture and influence should make us aware of the devaluation of the Indian culture in the bargain. The intelligentsia is attempting to erode values by rationalizing corruption, cheating and other amoral practices. A study reported by Transparency International (TI), a NGO based in Berlin, shows three consistently corrupt nations – Indonesia, Pakistan and Nigeria. India is also unfortunately in the top ten bracket. Human happiness is drastically on the decline and mental degeneration is on the rise. This is not only confined to individual or social life, but it has direct effect on the professional and organizational life style too.

S. K. Chakraborthy has aptly described the current human atmosphere in organisation in Foundations of Management work (1989). It is driven by selfishness, egoism, pride, envy, jealousy, arrogance, greed, deceit, anger, crookedness, hatred etc.

The management education curricula, business ethics has hitherto been relegated to status akin to that of a developing country in the comity of nations. The realisation that the age of Ethical Management of Business (EMOB) has arrived and here to stay, has finally, though belated, dawned on the movers and shakers of corporate cosmos and in turn, on the architects of business academics.

Sound business leadership goes hand-in glove with sound ethical leadership, that getting things done, as the age old definition of management goes, involves striking the right ethical chord in the people who do things.

EMOB involves a whole gamut of ethical management practices. Ornamentally encased corporate mission statements have become old wine. The in thing now is the concept of an alive and kicking ethical management system, which is not a mere type written listing of behavioural do's and don't-s but a comprehensive decision support system, incorporating all sorts of ethical problems that might crop up along with their possible solutions. Companies today are vying with each other in putting into place conscience constitutions of their own and leaving no stone unturned in making them work.

Some reputed organizations have written code of ethics while some spread it through the gestures and actions of senior managers. American Marketing Association has also designed a code of ethics for its members. It says that basic rule of professional ethics is not to do any harm knowingly.

Companies. may also appoint ethic advisors to guide its employees about the right conduct. These high level executives may give advise to senior management as well as may responds to the complaints and questions of employees at all levels. NGOs, professional bodies and institutions, and consumers organisations must also maintain pressure on companies to perform business activities ethically.

One could argue that ethical behaviour should in itself be rewarding. However these are tangible benefits as well. Business is built on relationships with the suppliers, customers, employees and other groups. The strength of these relations is largely a function of the amount of trust the parties have in each other. Unethical behaviour undermines trust and destroy relationships that ultimately affects the profitability of the firm. Studies have also shown that the firms, which maintain ethical standards perform much better than others due to the good relationships, they have with their suppliers, customers, employees and general public. Thus ethics are corner stone of business success. Few Indian companies such as Infosys, WIPRO, TCS and other Tata Group cos., Godrej Industries, Mahindra and Mahindra, Bajaj Group, Birla group, Escorts, Kirloskar Group,. Bharat Forgings, Ranbaxy Pharmaceutical, Lupin Pharmaceutical, Reddy Lab, Sonalika, Hero Honda, IOC, ONGC, Reliance Industries, ICICI etc., who have implemented EMOB have contributed considerably and helped in growth in Indian economy as well as their own growth.

Last but not the least, ethical management of Business would certainly help in eradication of corruption which would have considerable effect in growth of the Indian economy which needs to be maintained at 8 to 10% growth of GDP annually.

Corruption today at all levels both in private and public sectors has resulted in shameful position. India is one of the top ten corrupt countries of the world. Today law makers i.e. Member of Parliament, State Embassies, Panchayats, Corporations, Police, Railways and even few defence personnel, Academicians, Doctors, Judges, Lawyers and Voters are not adhering to moral and ethical values thereby causing/generating black economy. Today India's total tax assessees pool is a 3.5 crores taxpayers. Of these only 85000 people have declared annual income of more than 10 lakhs. Common sense would tell you this is hardly believable for country now regarded as a market for Louis Vuitton, Rolex and Cartier. In Delhi, buyers now pay almost 60 percent in cash for big ticket properties. Recently raids have been conducted in 14 cities of India to track transactions over Rs. 7,00,000 crores, which is 25 percent of the GDP. Black money like gambling, prostitution and corruption will never go away but can be reduced to the minimum level.

Hence strict adherence to the laws, moral values and business ethics would help India to surge ahead and becomes one of developed nations of the world. If China can grow at the rate of 10% per annum, there is no reason why Indian economy cannot achieve these growth standards. The policy makers and executives at the helm of affairs of business need to take visionary and missionary steps to enhance the growth rate so that by the year 2020, India should become one of the world power and zeroise/highest percentage of reduction of poverty in India.

Indians have the potential to reach to the top by following the world quality standards and ancient Indian ethos. They need to encash on human resources and cheap labour. Time has come to create the level playing fields and today's world of competition as only fittest will survive. We have to inculcate and imbibe in the people of

India, the philosophy of Vedas/Shastras and other religious scriptures that work is worship.

Income earned without toiling and soiling of hands of the individuals or organizations and through unfair means would cause decay or death of the organizations in the long run and would have cascading/ cancerous effect on the growth of the individual or organization. Hence individuals/ organizations need to to perform to achieve the excellent results otherwise chances of perish are greater. Thus practices of ethical management of business would certainly contribute to become a developed economy and a World Power.

♦♦♦

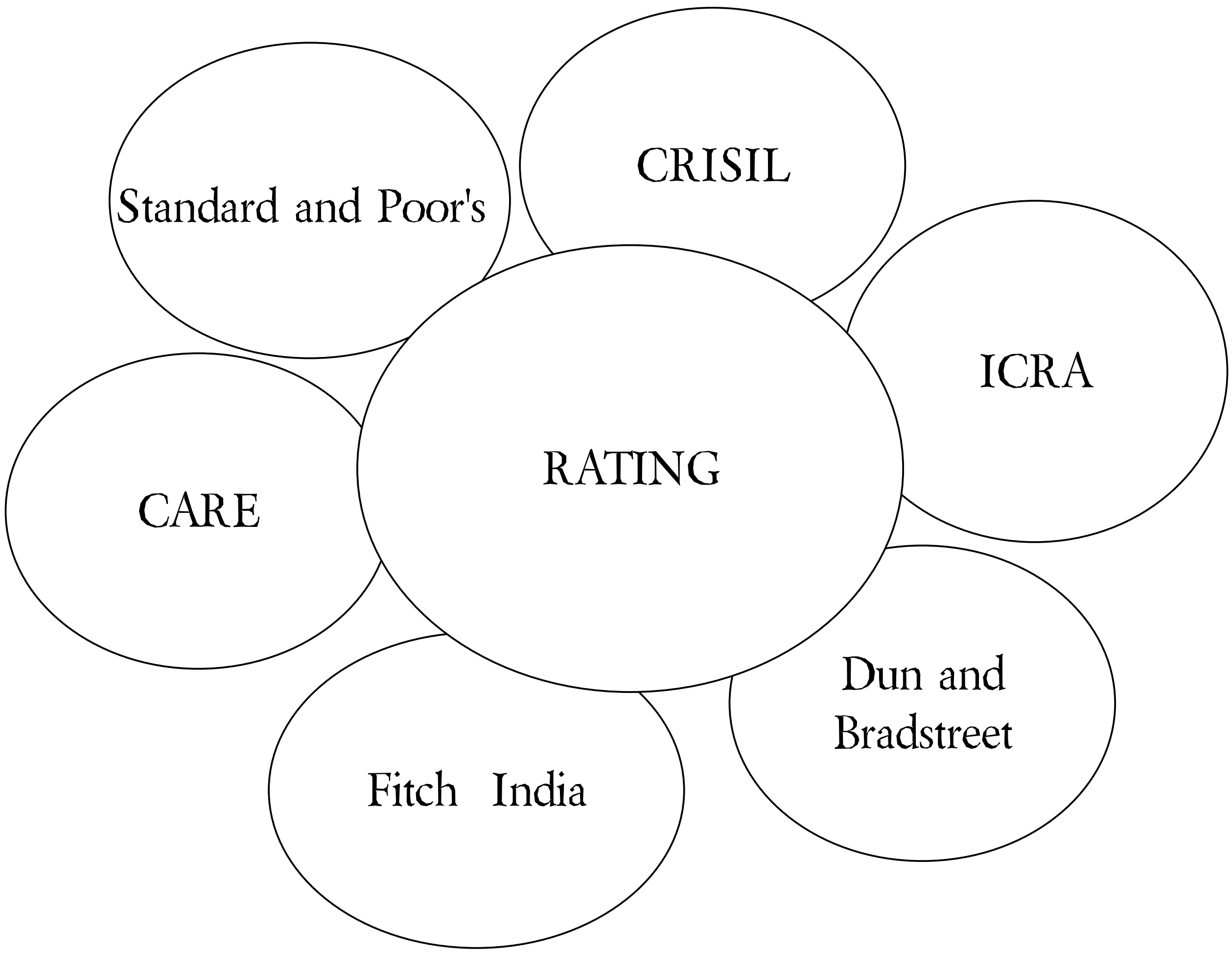
"The softest pillow is a clear conscience"
– N. R. Narayana Murthy, Chairman and Chief Mentor, Infosys Technologies Ltd.

"There was one situation in Karnataka where an officer wanted us to bribe him. He told us to pay him 4 lakhs or pay the government 40 lakhs. We paid 40 lakhs. The moment you build up a reputation like that, people don't trouble. They want to cite you as an example to show that they are good people; that they don't give bribes. They say 'Look at Infosys. We have given them all these things; they have not paid any price'"
– S. N. Chary, Business Guru Speak, pp. 85, Macmillan 2004

"The foundation of our corporate governance at Infosys is the belief that it is better to lose a billion dollars that to act in ways that make one lose a night's sleep."
Source: N. R. Narayana Murthy, Blissful knowledge – The Six Pillars of Corporate Wisdom, The Times of India, 10th August 2001

"We are not superhuman beings, we are not saints. However we are firmly grounded in our values"
– N. R. Narayana Murthy, Chairman and Chief Mentor, Infosys Technologies Ltd.
Quoted from a television interview April 2006. Courtesy: Dr. Guruprasad Murthy

Rating Agencies



Rating Illustrated

Who does?	**What Rating?**
Standard and Poor's	Long Term Ratings, Short Term Ratings
CRISIL	Debentures, Fixed Deposits, Short Term Instruments, Structured Obligations, Foreign Structured Obligations, Instruments carrying non-credit risk,Financial Strength Ratings of Insurance Companies, Debt Fund Portfolios, Real Estate Projects, Health care Institutions.

Ratings and their Meanings

Standard And Poor's Rating List

Ratings assigned by S and P to banks, financial institutions,finance companies, corporate And insurance companies

Credit rating definitions

Long-term Ratings

AA, A, BBB, BB, 'pi' ratings

AA: An obligor rated AA has very strong capacity to meet its financial commitments. It differs from the highest rated obligors only in a small degree.

A: an obligor rated 'A' has strong capacity to meet its financial commitments, but is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than obligors in higher rated categories.

BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB: An obligor rated 'BB' is less vulnerable in the near term than other lower rated obligor. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet financial commitments.

The addition of plus(+) or minus(-) signs to ratings, indicate the relative standing of the ratings within the major categories.

'pf' ratings: Ratings with 'pf' subscript are based on an analysis of an issuer's published financial informations, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management or incorporate material non-public information, and are therefore based on less comprehensive information than ratings without a 'pf' subscript. Ratings with the 'pf' subscript are reviewed annually based on new year's financial statements, but may be reviewed on an interim basis if a major event that may affect an issuer's credit quality occurs. Ratings with 'pf' subscript are not modified with '+' or '-' designations. Outlooks will not be provided.

Short-term Ratings

B: An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

CRISIL Rating symbols for Debentures

High Investment Grades

AAA "Highest Safety": Debentures rated AAA are judged to offer highest safety of timely payment of interest and principal. Though, the circumstances providing these degree of safety are likely to change, such changes are can be envisaged are most unlikely to affect adversely the fundamentally strong position of such issues.

AA "High Safety": Debentures rated AA are judged to offer high safety of timely payment of interest and principal. They differ in safety from AAA issues only marginally.

Investment Grades

A "Adequate Safety": Debentures rated A are judged to offer adequate safety of timely payment of interest and principal. However, changes in circumstances can adversely affect such issues more than those in the higher rated categories.

BBB "Moderate Safety": Debentures rated BBB are judged to offer moderate safety of timely payment of interest and principal for the present. However, change in circumstances are more likely to lead to a weakend capacity to pay interest and repay principal than for debentures in higher rated categories.

Speculative Grades

BB "Inadequate Safety": Debentures rated BB are judged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than others speculative grade debentures in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payment.

B "High Risk": Debentures rated B are judged to have greater susceptibility to default; while currently interest and principal payment are met adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.

C "Substantial Risk": Debentures rated C are judged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favorable circumstances continue.

D "Default": Debentures rated D are in default and in arrears of interest or principal payments or are expected to default on maturity. Such debentures are extremely speculative and returns from these debentures may be realised only on re-organisation or liquidation.

Note:

1. CRISIL may apply '+' (plus) or '-' (minus) signs for ratings from 'AA' to 'C' to reflect comparative standing within the category.

2. Preference share rating symbols are identical to debenture rating symbols except that the letters 'pf' are prefixed to the debenture rating symbols, e.g. PfAAA.

CRISIL Ratings Symbols for Fixed Deposits

Investment Grades

FAAA "Highest Safety": This rating indicates that degree of safety regarding timely payment of interest and principal is very strong.

FAA "High Safety": This rating indicates that the degree of safety regarding timely payment of interest and principal is strong. However, the relative degree of safety is not as high as for fixed deposits with FAAA rating.

FA "Adequate Safety": This rating indicates that the degree of safety regarding timely payment of interest and principal is satisfactory. Changes in circumstances can affect such issues more than those in the higher rated categories.

Speculative Grades

FB "Inadequate Safety": This rating indicates inadequate safety of timely payment of interest and principal. Such issues are less susceptible to default than fixed deposits rated below this category, but the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.

FC "High Risk": The rating indicates that the degree of safety regarding timely payment of interest and principal is doubtful. Such issues have factors at present that make them vulnerable to default; adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.

FD "Default": This rating indicates that the issue is either in default or is expected to be in default upon maturity.

Note:

CRISIL may apply '+' (plus) or '-' (minus) signs for ratings from 'FAA' to 'FC' to indicate the relative position within the rating category of the company raising fixed deposits.

CRISIL Rating Symbols for Short Term Instruments

P-1: This rating indicates that the degree of safety regarding timely payment on the instrument is very strong.

P-2: This rating indicates that the degree of safety regarding timely payment on the instrument is strong; however, the relative degree of safety is lower than that for instrument rated 'P-1'.

P-3: This rating indicates that the degree of safety regarding timely payment on the instrument is adequate; however, the instrument is more vulnerable to the adverse effects of changing circumstances than an instrument rated in the two higher categories.

P-4: This rating indicates that the degree of safety regarding timely payment on the instrument is minimal and it is likely to be adversely affected by short-term adversity or less favorable conditions.

P-5: This rating indicates that the instrument is expected to be in default on maturity or is in default.

Note:

CRISIL may apply '+' (plus) sign for ratings from 'P-1' to 'P-3' to reflect a comparatively higher standing within the category.

Source: CRISIL Rating Scan(June 2002)

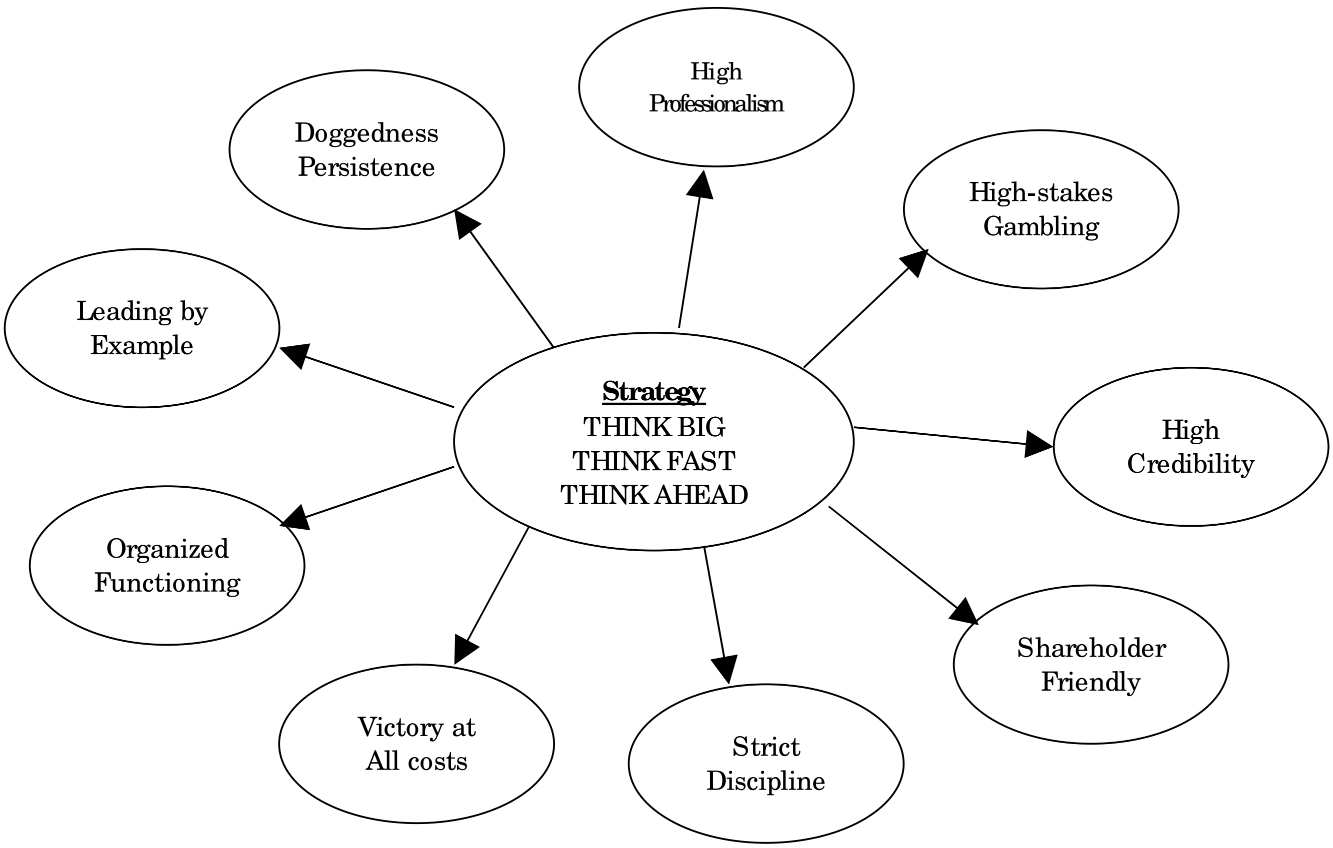
♦♦♦

The Financial Wizardry of the Ambanis

Navin Sambtani

The Era (1997-2002)

Reliance Industries Limited (RIL) was voted the company with the 'Best Financial Management' by Finance Asia (2002). As a financial behemoth, RIL stands out for its supreme ability in mobilization and utilization of its financial resources. A company so admired for its financial management has traversed an eventful journey that is replete with controversy on one hand and pioneering financial innovations on the other. The financial fabric of any corporate entity stems from the management philosophy that drives it. The Ambanis have always nurtured a management philosophy, which has manifested itself in the financial decisions during their illustrious journey. The key ingredients of RIL's philosophy have been captured in the illustration below.



Why is Reliance so admired?

A number of observers, analysts and media writers have applauded the corporate performance of Reliance Industries at a time when the economic recession would have led us to believe that only the reverse was possible.

Reliance is known for the following:

- Its ability to sustain high growth rates Its ability to digest criticism of its political management and move ahead
- Its ability to professionalise its management despite a family-run structure at the top
- Its ability to be a pioneer in the methods of financing its mega projects
- Its success in setting up competitive and productive assets of global capacity and its ability to stay ahead at a time
- Project management skills
- Sound financial management

"D for dare-devilry and A for ambition, that summed up the man known as Dhirubhai Ambani"

Dhirubhai Ambani is arguably the greatest entrepreneur India has produced. His biggest contribution was the development of the equity cult in the stock markets. Earlier, the market was like a satta-bazaar, but he made it a reliable investment option. Ability and doggedness combined to turn fantasy into reality. Dhirubhai Ambani founded a brash company, which challenged the established groups and their way of conducting business. Dhirubhai rewrote management theories, fought with India's most fearsome newspaper and, at times, became the only manager to be lampooned as often as a politician.

Banks had often turned him down when he needed money to build his factories. So he turned for support to the only other option he had: the public. Dhirubhai's modern way of thinking brought into play his third achievement: the idea that Indian manufacturing should be world class both in terms of size and quality.

His corporate philosophy was V, for vision and vicious energy. His goal: victory at all costs.

After the Vimal textiles brand, which he launched in 1968, gave him a sound grounding in the inhospitable Indian corporate world controlled by the old economy khandans, he was once again on a borrowing spree - borrowing very big from the public to bypass the nationalized Indian banking system. His first public issue in 1977 was a sell-out: the PR wizard that he was, Dhirubhai used the media to make it the biggest event of the time.

Dhirubhai once confessed that his ambition was to follow the path of the 'Seven Sisters', the integrated oil multinationals that first went into oil exploration, then into refining, distribution and finally into petrochemicals. Dhirubhai achieved that dream, albeit in reverse order.

Reliance also epitomized a spirit of resilience and a wall-like demeanor to fight the odds. In July 1989, flash floods damaged Reliance Patalganga complex, and DuPont engineers who were flown in estimated that it would take at least 90 days to get the plant working. The Reliance management did the job in 29 days flat.

A very pertinent question might nestle in many minds today: Why have the Tatas, Birlas, Thapars, Goenkas, Modis and other major Indian groups not been able to do what the Ambanis did? Twenty-five years ago, these groups were giants, and Reliance merely a start-up. There are arguments that suggest that this is because of Reliance's special skills in managing (or manipulating) bureaucrats and politicians. While that may have had some validity a decade ago, it cannot hold good any more. For one thing, we are no longer in the License Raj, and Reliance has accelerated in the last decade while the other big groups have faltered. Secondly, all large Indian business families enjoy these unfair advantages (political clout), but few have been able to build on them the way Reliance has.

The answer lies in clarity of vision and its implementation. While everyone else chased small, diverse, and relatively quick and easy gains, Reliance stayed focused on size, global competitiveness and the long-term. They re-invested in synergistic businesses and achieved enough scale to scare their competitors away, or put them out of business.

The Ambanis have always networked themselves well enough so as to embroider so-called 'Reliance clout'. In March 1982, the Reliance scrip was the target of a bear raid organized by a Calcutta based industrialist. They picked the wrong target. While the bears were hammering the shares down, Dhirubhai organized a rescue operation with friendly brokers buying up every share being sold. Then, knowing fully well that the brokers did not have possession of the shares they had sold, he demanded delivery. The bear cartel was thrown into a panic and desperately started buying Reliance shares. When cartel members asked for time to deliver the shares, Dhirubhai asked his friends to refuse. The upshot — the Bombay Stock Exchange had to be shut for three days. But the bears had been taught a lesson — do not meddle in Reliance shares. The Ambanis went on to saying, "Play with Reliance and you play with fire". However, this wasn't the end of the story. Answering a spate of questions in the Rajya Sabha, the then Finance Minister Mr. Pranab Mukherjee, named eleven companies which had invested over Rs 225 million in Reliance during 1982 (the year of the 'bear cartelisation'). The names of these companies hinted shady deals. Could the companies named as

Crocodile and Fiasco be for real? This riddle was unraveled in the next year. The companies had been registered in the Isle of Man, an international tax haven, during 1982 and were owned by several Shahs. Everyone began questioning the possible links between these companies and Reliance's crusade against the bear cartel. The six companies appeared to act in unison – they all bought Reliance shares on the same day – so there was probably one owner. Whoever controlled them also seemed to be remarkably well informed about Indian regulations. The financial press was ruminating over that man being Dhirubhai himself, until RBI investigations revealed that there was no link between RIL and the investments made by the small companies.

Unparalleled Fund Mobilization efforts

For much of the 80s, the group's fund-raising efforts were centered on its flagship company, Reliance Industries Ltd (RIL). It came out with a few straight equity and loads of convertible instruments. In an approach practiced even as late as 2001-02 in the case of Reliance Petroleum, even the non-convertible part of convertible debentures as well as a series of RIL's non-convertible debentures were converted into equity later. This process was helped by price trends in the stock in the secondary markets. As the most actively traded share, the Reliance stock in the 80s was the focus for much speculative trading. The group was clued to the importance of the secondary market as being vital for its fund mobilization efforts.

The group's investment companies have also been direct or indirect players in the equity market. For instance, the public offering document of Reliance Capital in the mid-90s indicated that it would support unlisted group companies (which were later desubsidiarised) in their market activities. What was important was the manner in which the group ensured that its flagship RIL was not overloaded with equity. If this had happened, it would have acted as a company specific-dampener on the valuation of the stock.

The equity could not afford to rise too much ahead of earnings and in the CCI-controlled pricing era, conversion prices were not aligned to market prices and, therefore, every conversion tranche added to the equity sizably. It is here that the next aspect of the strategy came to the fore. That was to float new companies or convert existing companies' business profile, to help fund mobilization efforts.

New companies: The first off the block was Reliance Petrochemicals. Surely the group could not have had two entities in petrochemicals. The strategy was clear: Use RIL's tag to garner funds on a large scale through other companies, which came to the fore for just that. When the project was close to fruition, the next part of strategy came into play: A merger with RIL at swap ratios that did not add much to the equity of the flagship company.

The stock price trends between the flagship and the fledgling fund mobilizing entities, and the differential in their fundamentals were wide enough to allow a swap ratio that ensured that RIL's equity did not bloat too much in the merger process. This way, RIL's capacities were partially ramped up yet without expanding equity to the extent that a direct effort by it would have entailed.

After Reliance Petrochemicals, came an even more aggressive attempt by the group. Two listed group finance companies that were almost unknown acquired new avatars. Reliance Polypropylene and Reliance Polyethylene came, with more equity mobilization efforts aimed at expanding the group's petrochemicals profile.

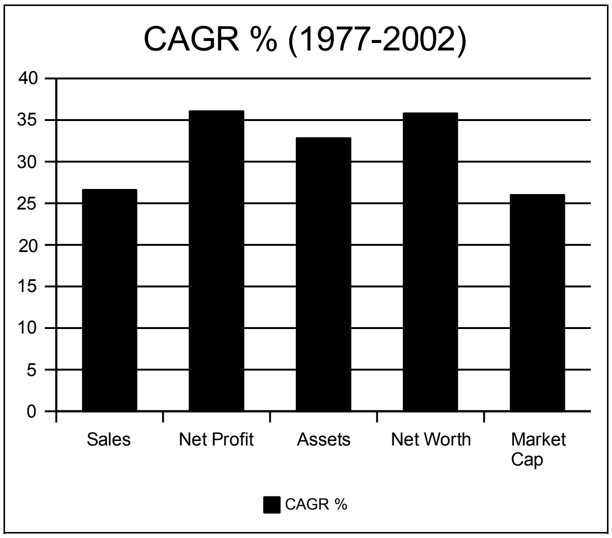
Interestingly, the two offer documents had to include a rider in the risk factors stating that the market price of the stocks could be the subject of manipulation and circular trading and did not necessarily represent the fundamentals. This followed a SEBI diktat to the effect. But these two offers found ready takers, helped by the fact that investors in a public offer of the Reliance group generally made good money if they sold out. Once the fund mobilization was over, these companies were drafted into the RIL fold through mergers.

Meteoric growth of the Behemoth

Reliance Industries began from a paltry Rs 70 crore group in 1976-77 to India's largest private corporate giant with sales of Rs 58,026 crore in 2001-02. The net profit of the group soared from Rs 1.28 crore in 1976-77 to Rs 4,604 crore in 2001-02. Total assets jumped manifold from Rs 33 crore in 1976-77 to Rs 54,912 crore.

The markets cheered the Reliance group's bold forays and the group's market cap increased from

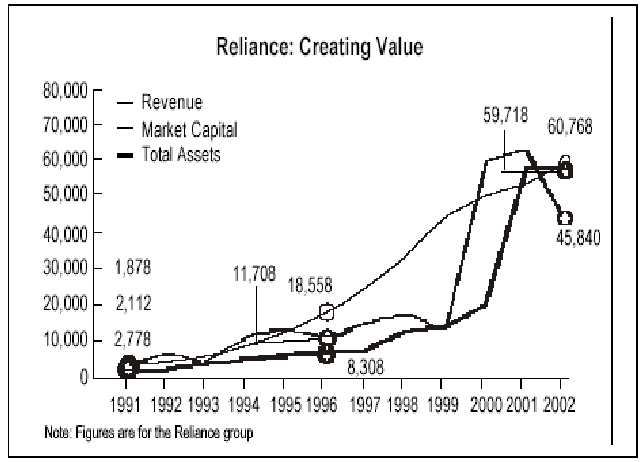
Rs 78 crore in 1979-80 to Rs 43,761 in 01-02. RIL has grown at a compound annual growth rate (CAGR) of over 26 per cent in the last 25 years. Its sales income increased at a CAGR of 26.61 per cent from Rs 68.72 crore in 1976-77 to Rs 28,008 crore in 2001-02. Net profit soared over 2200 times or at a CAGR of 36.05 per cent from Rs 1.28 crore to Rs 2,814 crore. RIL's total assets shot up from Rs 32.89 crore in 1976-77 to Rs 29,875 crore in 2000-01 (CAGR of 32.8%). Its net worth moved up from Rs 9.54 crore to Rs 14,765 crore in this period (CAGR of 35.8%)



The company has so far paid Rs 28,500 crore to the national exchequer by way of direct and indirect taxes. RIL employs around 16,000 people and is today the 4th largest producer of polyester filament yarn and the 5th largest producer of polyester staple fibre in the world. The company is the 3rd largest player in paraxylene, 6th largest in purified terephthalic acid and polypropylene, and the 10th largest producer of polyethylene in the world.

Shareholders have reason to cheer, too. RIL has had a history of uninterrupted dividends for the last 22 years. The dividend record goes from 15 per cent in 1976-77 to 42.50 percent in 2000-01. The dividend paid in 2000-01 has been on the higher equity capital bloated by the bonus and rights issues made between 1985-1997 period. RIL's equity capital, in fact, rose to Rs 1,054 crore in 2001-02 from Rs 5.95 crore in 1976-77 (CAGR of 23%).

Reliance Petroleum, the second largest company in the group, has been merged with RIL. Established in 1993, RPL went public in September 1993 with an issue of triple-option convertible debentures, amounting to Rs 2,172 crore.



The company commenced commercial production in 2000-01 and that year it became the largest private sector company in India with sales of Rs 30,963 crore. The net profit in 2000-01 was placed at Rs 1,464 crore. During the year ended March 2002, the company's sales were at Rs 33,117 crore and net profit of Rs 1,674 crore.

A Zero Tax paying company for 20 years

Reliance's amazing tax planning ensured that virtually from its inception, Reliance did not pay any taxes on corporate earnings. Consistent capital spending enabled RIL to set off the profits from operations against the tax credits he was allowed on the investment. Reliance was a zero tax company for several years because its continuous tax credits helped it to offset its profits. When the finance minister imposed a compulsory corporate tax of 30 per cent, Reliance capitalized their total debt for the entire contracted term of debt. They argued that interest accrues from the date of availing a loan until its repayment, and that all loans would be repaid on their due dates. This enabled them to retain their zero tax status. Reliance was a zero tax paying company for twenty years till 1997 when they made their first provision for tax (Rs 45 crores).

The Equity Cult

Most Indian businesses sought to finance their projects by mobilizing debt funds from the state owned public financial institutions. Dhirubhai preferred to raise capital directly from the public as the funds mobilized from public financial institutions often had a rider attached to them. This rider called the convertibility clause provided an option for the lending institution(s) to convert the debt into equity at a later date. His support for the small shareholder stemmed from personal experience. One, he knew what it was like to be poor and secondly, banks had often turned him away when he needed money to build his factories. Mobilizing funds directly from the small investors was a major departure from normal practice during the 70s.

Ambani realized that in order to seduce the public into investing in his schemes, he had to offer them something beyond and above what they were already used to getting. And this was steady appreciation of their shareholding. Until he came on the scene, managements rarely bothered about the price of their company's shares. The business of a company was to make profits and declare dividends, not to dabble on the stock markets, keeping track of share prices and supporting scrip whenever it wobbled. Ambani believed that management had a responsibility towards its shareholders and should play an active role in looking after their interest. It took him half a decade to propagate this philosophy but once it took root, it changed the entire mindset of corporate India and its way of doing business.

Reliance made an initial public offering of equity in 1977. This marked the beginning of Dhirubhai's virtually single-handed effort to create an equity cult in the country. Dhirubhai had the knack of introducing innovative financial instruments and modifying existing ones. In 1979, Reliance needed money to finance a worsted-spinning mill. Dhirubhai chose the partly convertible debenture. He persuaded the government to accept the concept. Investors liked the idea so much that the 1979 public issue was oversubscribed six-times. Convertible debentures soon became the instrument of choice for both promoters and investors.

The 1979 issue was quickly followed by issues of partially convertible debentures in 1980 (for modernizing its textile facilities), 1981 (to finance its foray into the manufacture of Polyester Filament Yarn) and a Rs. 500 mn offering in 1982 to further modernize its textile facilities. In 1984, a brainwave hit Ambani. Why not convert Reliance's non-convertible debenture into shares? The only problem was that the scheme didn't quite comply with the controller of capital issues' rulebook. How could an instrument that was initially sold as non-convertible be put in the same category as convertible debentures? It would reward some investors at the expense of others. From 1997 to 1982 RIL had issued partly convertible debentures collectively worth Rs 930 million. The convertible part (around one-fourth) had already been converted to equity. The non-convertible parts were quoting at a discount ranging from 15% to 18% (as of March 1984). Ambani in 1984 offered to exchange every Rs 100 worth of debentures for 1.4 shares. The market price for a debenture was Rs 84, that of a share, Rs 115. It was an attractive offer for debenture holders. Lets analyze what was in store for Ambani. Cash flows on servicing would go down. The debentures carried 13.5% interest. Even the most generous dividend on a Rs 10 share would be less. In RIL's balance sheet, a huge debt of Rs 700 million would disappear and share capital would go up by Rs 100 million. During 1994, RIL enjoyed a strong and all-pervading clout in the political capital, but soon after the assassination of Prime Minister Indira Gandhi, the clout of Reliance began to quiver. Rajiv Gandhi's new finance minister; V. P. Singh stalled the conversion of the non-convertible debentures saying that the move was directed to 'curb unhealthy speculation'. A few years later, some series of the non-convertible debentures were permitted conversion.

Public Issues by Ambani	
Year	**Amount (in Rs Crore)**
1977	3
1979	7
1980	125
1981	24
1982	50
1984	80
1985	270
1986	500
1987	190
1988	600
1989	820
1991	858
1992	1,375
1993	934

Ambani coined the term 'mega issue'. Each year he beat his own record. With the exception of 1997 (when RIL went public), traditionally the honour of the year's largest issue goes to RIL. Till 1995, Ambani had mobilized Rs 64.23 billion from the public. It has also has the distinction of being the most widely held company. RIL today has around 4 million shareholders, which is the largest population of shareholders for any company worldwide. One out of every four Indian investors is a Reliance shareholder. In 1993 Reliance toppled TISCO as the most traded company in India.

RIL's funding during the last few years

The table below shows rating analysis of Reliance Industries' debt securities.

Rating as on	Security Type	Amount	Rating Code
31/10/02	Non-Convertible Debentures	11000	-
25/09/02	Non-Convertible Debentures	11000	-
23/09/02	Non-Convertible Debentures	1000	AAA
23/09/02	Short Term Debt	1600	P1+
20/05/02	Non-Convertible Debentures	300	AAA
20/05/02	Short Term Debt	1600	P1+
20/05/02	Non-Convertible Debentures	5000	Ind AAA
03/11/02	Non-Convertible Debentures	5000	Ind AAA
07/04/01	Non-Convertible Debentures	5000	Ind AAA
17/10/00	Non-Convertible Debentures	0	AAA
28/08/99	Partly Convertible Debentures	0	AAA
28/08/99	Commercial Paper	1050	P1+
28/08/99	Debentures	0	AAA
08/03/99	Preference Shares	0	AAA
24/06/99	Non-Convertible Debentures	0	AAA
06/03/99	Debentures	0	AAA
30/06/98	Partly Convertible Debentures	342	AAA
30/06/98	Debentures	0	AAA
23/06/98	Commercial Paper	1050	P1+
23/06/98	Non-Convertible Debentures	0	AAA
06/04/98	Commercial Paper	1050	P1+
14/04/98	Non-Convertible Debentures	0	AAA
14/04/98	Partly Convertible Debentures	0	AAA
14/04/98	Commercial Paper	1050	P1+

Table 1: Rating Analysis of Reliance Industry Limited

AAA :The instrument rated AAA are judged to offer highest safety of timely payment of interest and principal. Though the circumstances providing this degree of safety are likely to change, such changes as can be envisaged are most unlikely to affect adversely.
P1+ : Very Strong With Relatively Higher Standing.Ind
AAA: Highest credit quality. Risk factors are negligible.

a) It shows that over the last four years, its debt securities have had premier ratings and this has enabled Reliance to leverage its position to raise large amounts of debt

b) Reliance has been able to obviate raising further equity capital since its debt securities enjoy such high rating that enables them to indulge in Debt more than Equity, thus leveraging their capital structure. RIL hasn't raised funds through equity issues since 1997.

c) Raising short-term debt in the form of Commercial Paper has been effective for Reliance as their CPs have a P1+ rating. The ratings of AAA and Ind AAA of their non-convertible debentures have ensured substantial confidence in the market and as noted in Reliance's recent history, Debentures and other debt instruments have formed the lion's share of their incremental capital requirements, rather than equity capital.

Investment Game-Plan

RIL holds almost half its investments in long-term opportunities. A substantial share of its long-term investment was a 60% stake that it had in Reliance Petroleum Industries. Its other long-term investments are in its other subsidiaries. This is a common feature in diversified groups where flagship companies hold stakes in other group companies. Thus the performance of the companies will have a direct impact on the shareholder value return of RIL. Reliance also invests in its group companies to diversify its risks its petrochemical business is cyclical in nature. RIL also holds nominal investments in preference shares of its subsidiaries, which are much smaller size. A rationale for this could be to minimize the exposure of its smaller subsidiaries to the debt market. It may not be very easy for the group's small subsidiaries to raise debt from the market. Hence RIL steps in to make up for their financial requirements.

A substantial amount is held in debentures (deep discount bonds) of the group's other companies. A Deep Discount Bond is a bond that is issued at a price well below its par value in exchange for a lower coupon rate coupled with redemption at par or at a premium at maturity. It is attractive to a company because it matches a lower servicing cost of the bond with anticipated cash flow pattern from an investment or if cash flow problems are anticipated. It is attractive to investors who prefer to receive a higher proportion of their return in the form of capital gains rather than interest income, perhaps due to differential tax rates on income and capital gains. There is almost an equal balance between long term and short term investments which shows that one hand its investing in equities of group companies for long term gains and short term investments to avoid locking of surplus funds.

Large Videshi Moolas

RIL's pursued a strategy of reducing the cost of capital and extending debt maturities by tapping the international debt markets. In 1992, Reliance became the first Indian company ever to issue Global Depository Receipts to raise $150 million from the European markets. The Reliance Petroleum Issue in 1993 was another milestone – it is India's largest public offering to date. One of its widely acclaimed achievements came in the year 1996- a 100-year Yankee bond issue worth $50 million. Again, it wasn't the size but the fact that Reliance managed to issue a 100-year bond in the US markets without a sovereign or Government of India guarantee. RIL had raised US $405 million (Rs. 14.5 billion) in a matter of 72 hours in 1997-a feat unparalleled in Indian corporate history. In July-August 1996, Reliance Industries Limited made news with successful flotation of $100 million 50-year Yankee bond in the US markets. The Reliance Yankee bond was the first issue of such a long maturity by any issuer, sovereign or corporate, with this credit rating. In 1996, Reliance became the first manufacturing company in Asia to tap the sterling market by raising sterling 150 million (US dollar 255 million, Rs 9 billion) in 10-year maturity debt, the highest tenor achieved by any Asian company. Less than 72 hours after that, Reliance achieved yet another first by privately placing $150 million (Rs 5.4 billion) in 10-year maturity debt with sophisticated European institutional investors.

Treasury Management at its savviest best

The financial years 2001-2002 and 2002-2003 witnessed the best manifestation of RIL's financial wizardry. In private, corporate treasurers admit that it is Reliance Industries that perfected the art of treasury management long ago. The treasury desk of RIL during the years was a classic example of financial engineering.

RIL demonstrated its financial flexibility and innovativeness during the years by successfully exercising call options on its existing higher cost rupee debt and refinancing the same by issuing debt paper in the domestic market. The move was aimed at taking advantage of the declining interest rate environment in the domestic market. Call options on debt obligations would imply an option at the hands of the borrower to prepay the debt if the interest rates become unfavourable for borrower.

In 01-02 the company repaid and exercised calls options on domestic debt aggregating Rs 2,089 crore ($448 million) and issued a combination of fixed rate and floating rate debt aggregating Rs 450 crore ($97 million), resulting in significant interest cost savings.

Reliance also undertook liability management transactions such as interest rate swaps and currency swaps on an ongoing basis aimed at reducing its overall cost of debt and diversify its liability-mix. During the year, Reliance remitted $844 million (Rs 3,858 crore) from its offshore foreign currency balances. This was in line with RIL's overall foreign exchange risk management policies in the backdrop of rapidly growing export revenues.

RIL's exports and forex-denominated oil and gas revenues provided a more than six times cover for its annual interest obligations on foreign currency debt. This cover increased to 25 times in the year 02-03. Further, the company's exposure to direct increase in feedstock costs from devaluation of the rupee has also reduced, since the company is currently importing only ethylene dichloride.

The company has been funding its long-term and project-related financing requirements from a combination of internally generated cash flows and external sources.

So far, Reliance has issued over $1.3 billion (Rs 6,000 crore) of debt securities in the global capital markets since 1995 with maturities ranging from seven years to 100 years. The average final maturity of the company's forex debt is 17 years.

RIL refinanced two of its outstanding foreign currency syndicated loans amounting to $187 million (Rs 880 crore), thereby achieving a significant interest savings. This again forms part of its ongoing programme of interest cost reduction.

RIL also bought back a total of $157 million (Rs 735 crore) and US$ 273 million (Rs 1,297 crore) of its offshore bonds during 01-02 and 02-03. These were refinanced partly through internal accruals and partly through syndicated term loan facilities raised in Japanese Yen and Pound Sterling, leading to substantial savings.

Working Capital Management

Reliance had also established a rupee commercial paper programme to provide an alternative source of working capital. Its commercial paper was rated 'P1+' by CRISIL, the highest credit rating that could be assigned to this type of instrument.

While CRISIL reaffirmed the ratings of the company's long-term debt at `AAA', the highest rating awarded by the agency, the company also obtained an `AAA' rating from Fitch India for its domestic long-term debt. RIL's international debt carries ratings of `BB' (stable outlook) from Standard and Poor's, and `Ba2' from Moody's, the latter constrained by the sovereign ceiling.

Reliance Industries has negotiated with a clutch of domestic banks for raising foreign currency non-resident (FCNR-B) loans to fund its working capital requirements. The petrochemical giant -- which has raised the maximum foreign currency loans among domestic private sector companies –has sourced FCNR (B) loans at as low as100 basis points over LIBOR.

Triple Option Convertible Debenture-

Finance jugglery couldn't have better craftier: The Rs 60 TOCD issue in November, 1993 entitled the holder with two equity shares of Rs 10 each, a non-convertible debenture with a face value of Rs 40 and two freely tradable warrants (to be converted into two equity shares of Rs 20 each). At the time of conversion in May, 1998 investors had three options: Retain the non-convertible portion of Rs 40 and get back Rs 20, Rs 30 and Rs 30 in the 6th, 7th, and 8th year respectively and sell the warrants in market; surrender the non-convertible portion along with warrants to get two shares of Rs 20 each without paying for the conversion amount; and retain the NCD portion of Rs 40 and get back Rs 80 in the 6th, 7th and 8th month and surrender warrants and apply for two equity shares of Rs 20 each.

The instrument was designed in such a manner that there were no outflows in the initial years. The redemption would take place only in the 6th year. This instrument offered investors an average IRR of

16% across all the three options and the cost of capital to the company was just 10%. During 1994, this instrument became one of the most widely held instruments. A staggering 25 lakhs investors were TOCD holders. This only reinforces the financial acumen of the house of Ambanis that has enabled it to raise colossal amount of funds, be it debt or equity.

Ultimately, IPOs, rights offers, NCD offers, conversion offers for NCDs, flotation of new companies to serve as vehicles for fund mobilization, mergers with flagship company RIL, innovative and complicated structuring instruments and conversion terms with similar attributes in the case of Reliance Petroleum, GDR offers, overseas bond offers with tenures ranging from 10 to 100 years — all these combined to provide a heady cocktail for generating funds from investors and all this has made a RIL an exemplary example for financial acumen, financial innovation and above all, FINANCIAL PROWESS. The financial genius of Dhirubhai for the last three decades will be immortalized in Corporate India's history.

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Characteristics of a Good Management Control System

Good Management Control System should:

♦ be simple, easy to understand and to operate;
♦ facilitate decentralisation and practise of delegation of authority;
♦ be driven by an organisational structure which:
  ♦ is as short as possible
  ♦ to motivate performance; and
  ♦ facilitates full use of resources, initiative and capabilities of people and encourages quick decision making
♦ facilitates practice of reward penalty system in an objective manner;
♦ facilitates transmission of bad news as fast as possible on an on-line basis to permit timely pre-emptive response action;
♦ have built-in potential to generate on-line information to different decisional centres;
♦ quantify the key performance indices including financial as well as non-financial and strike a neat and nice balance between the two sets of indices;
♦ should embrace the entire network of the business cutting across as many levels of responsibilities as possible, after ascertaining systemic costs;
♦ in the context of globalisation permit cross-cultural aspects to be captured in the control process;
♦ also provide scope for evaluation of non-quantifiable attributes like honesty, character, morality, discipline, integrity, probity, commitment, dedication, friendliness
♦ built-in flexibility to capture and drive impact of changes across the decisional centres; and
♦ Identify benchmark performance levels which are difficult to achieve not impossible to attain or enable people to perform with zero defect as far as possible.

General Electric
Target Negotiations and 'Gaming' have been reduced in GE's planning process.
Corporate Atmosphere focussed on achieving stretched goals

Issues involved in Management Control Systems

Prof. Suresh Mony

"A Good Control System is one which can release negative or bad news instantaneously to facilitate suitable, timely response action"

"An Ideal control system is one which can facilitate pre-emptive moves or actions"

What comes to our mind when we dwell on the import of the 3 key words, management, control and systems? 'Management 'signifies superintendence, power and therefore the need to control; 'Control' which implies direction has a negative connotation to many, something that is by and large resented as it goes against the human grain of independence and also typifies bureaucracy and red tapism. On the other hand controls is not the plural of control and is synonymous with measurement and information and is systemic in nature, -'Systems' imply logic- vehicles to generate outputs as desired. The combination of power, resentment and logic is thus a mixed bag and therein lies the challenge of defining, designing and installing appropriate Management Control Systems (MCS) in any organisation.

Defining Coverage of MCS

Management accountability is the expectation that managers are responsible for the quality, reliability and timeliness of operational performance, increasing productivity, controlling costs and mitigating adverse aspects of operations, and assuring that operations/programs are managed with integrity and in compliance with applicable law.

Management controls, in the broadest sense, include the plan of organisation including the organisational framework, formal and informal means of communication, methods and procedures adopted by management to ensure that its goals including long-term vision and mission, short-term objectives and sub-objectives (down to nuts and bolts) are met and management is fulfilling its role of being accountable. Management controls include processes for planning, organizing, directing, and controlling program operations.

In the era of globalisation, adherence to quality has become a mantra necessitating significant involvement of top/senior management and appropriately therefore Quality Management Systems (QMS) constitute a part of MCS. Data also has to be generated for use by external agencies and this again falls within the ambit of MCS. Over and above these that fall within the traditional definition of management, nowadays in keeping with the growing demands on corporate governance, MCS also have to meet the standards of governance imposed by the Sarbannes Oxley Act (SOX), Naresh Chandra Committee/J.J. Irani report as well as meet corporate social responsibility (CSR) requirements.

Thus, Management Control Systems (MCS) are the organisation, policies, and procedures used to reasonably ensure that (i) intended results are achieved; (ii) resources are used consistent with mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Financial planning and control systems

Financial planning and control systems (FPCS) revolves around:

(i) Profit centres
(ii) Transfer price mechanisms
(iii) Measuring and controlling assets
(iv) Budget preparation
(v) Variance computation
(vi) Performance measurement systems
(vii) Management compensation and incentive plans.

It is usual to generate a dash of reports giving ROI, ROCE, ROE, Cost variance analysis, EVA etc. How far do these reports go in evaluating the effectiveness as well as efficiency of performance is the crucial test. The adequacy of these therefore needs to be assessed in the light of the holistic definition of MCS and other variables that impact the design of MCS.

Is the conventional profit centre concept preferred or the refined concept of investment centre and if so, what are the types of companies that have the investment centre concept. Over the years, Return On Investments (ROI) and Economic Value Added (EVA) have emerged as two major performance measurement criteria, for assessment of investment centres, however, majority of companies still use ROI. In India, the use of EVA is limited but it would be interesting to find out the type of companies that use EVA and the reasons thereof-are these service organisations or MNC's-do FMB's use EVA etc.? Further, how do companies go about fixing the capital charge for calculating EVA-is there a wide divergence in approaches? Similarly, what would influence organisations to adopt Accounting Rate of Return (ARR) or ROI as performance measurement criteria?

Quality systems

The avowed corporate objective of ensuring long term customer satisfaction together with the quality movement has ensured that quality is no more a reactive and inspection oriented process but a holistic process encompassing all facets of operations to ensure strategic success. Quality achievement is a top down process that pervades across the organisation with the top management being involved in the formulation of the quality strategy, the middle management in policies and procedures and the workers in executing work-instructions. Quality assurance, TQM, control techniques (statistical process control) constitute the troika of a good QMS.

There are 3 main approaches to developing a good QMS viz.

- changing the management style and culture through TQM thereby preparing the ground for writing procedures and developing the quality assurance system in a proactive mode which prepares the workers for receiving training in statistical control techniques thereafter
- first introduce quality assurance procedures thus developing step by step the entire system as in a standard-thus while developing procedures workers become actively involved, with quality assurance and TQM introduced statistical control techniques logically follow suit.
- this approach starts from statistical process control techniques at the individual job level combined with respective training and reinforced with procedures and records gradually leading to a quality assurance system and paving the ground for TQM.

Companies like Sundaram Clayton the first winner of the Malcolm Baldridge award in India have adopted the first approach ; majority of companies however appear to be adopting the second and third approach. It would be pertinent to examine the approach towards QMS with respect to ownership, size, industry structure, and with respect to manufacturing and service sectors.

Corporate governance systems

Corporate governance as a movement has come into focus only in the last decade or so but got its impetus after the Enron and Worldcom episodes in the US which culminated in the enactment of the Sarbannes Oxley Act. It is now being increasingly accepted that companies strong in corporate governance will generate consistent and superior economic returns over the long term and their cost of capital will be lower, whereas companies weak in corporate governance represent increased investment risks and their cost of capital will be higher. Keeping in view the need to have a measurable control system, rating agencies have developed metrics for measurement of corporate governance, these cover assessment on a 1 to 10 scale on:

(i) Board accountability
(ii) Financial disclosures and internal controls
(iii) Shareholder rights
(iv) Remuneration
(v) Market for control
(vi) Corporate behaviour

In India, corporate governance standards particularly in the FMB sector are lax. An assessment of control systems across different ownership patterns, that are in place to meet corporate governance standards would provide insights to the approach, philosophy and respect for the shareholder.

Variables That Impact MCS

The design and structure of MCS would vary widely depending on a host of variables such as:

(i) the type of ownership whether public sector or private sector and more specifically whether it is a family managed business or a professionally managed company

(ii) type of industry-whether manufacturing or services

(iii) the industry structure - monopolistic, oligopolistic or fragmented

(iv) the age that it belongs to -whether it is an old economy or new age company

(v) the size and manpower strength of the organisation

In view of the multifaceted definition of MCS and the impacting variables there is substantial scope for research on the design and implementation of MCS amongst Indian corporates. The issues that emerge and some of the hypotheses that could be tested through research are outlined in the following paragraphs.

Does type of ownership influence MCS significantly?

Does the fact that the public sector does not belong to any individual or controlling group and the overt sense of job security amongst employees imply laissez fairre and less stringency in controls – for example a subordinate being less amenable to adhere to control systems or a superior being less able to enforce cost control and discipline. On the other hand, does the focussed profit orientation of the private Family Managed Businesses (FMB) sector and the proprietary nature of stewardship imply superior cost and financial control, for example a Reliance Industries vis-à-vis Indian Oil?

The design of MCS depends to a large extent on behavioural aspects within an organisation, the nature of responsibility centres, the processes involved in planning, and budgeting. Keeping this in view, are the performance measurement criteria and financial reporting vastly different for MNC's, PSU's and FMB's?

Further, does the fact of being an MNC imply superior systems and consequently better control. Where do the professionally managed private sector companies like Larsen and Toubro and Infosys with low promoter holdings stand vis-a-vis control systems-are they comparable to the MNC's or somewhere in between the FMB's and MNC's?

How does sector-manufacturing or services influence MCS?

The control points in a manufacturing company with its longer supply chain, inbound and outbound logistics are more than in a typical services sector and this could logically be expected to demand more elaborate controls. Consequently therefore, are MCS in the manufacturing industry more intricate in terms of systems design or is the need to measure behavioural outputs more in the people intensive services industry?

The supply chain in the IT sector is largely oriented towards manpower sourcing- what control systems for instance, does a company like Infosys need to have to meet its requirements of 50 professionals per day on an average as opposed to a manufacturing firm

Services organisations like IT or Consulting are not capital intensive, in fact capital requirements are minimal and therefore ROI as a control parameter is not relevant. How do such organisations measure performance? Again, within the services sector, in manpower intensive, capital intensive and high customer contact services organisation like an airlines or hotel how are MCS different from a similarly manpower intensive but low capital intensity and low customer contact IT firm.

What are the nature of hierarchical positions that distinguish the controllers in manufacturing and services set-ups. In comparable paternalistic types of management, keeping in view the greater working capital requirements, is the accent on financial controls more in say Tata Steel as compared to Wipro?

How does industry structure influence MCS

Does the nature of the industry whether oligopolistic or competitive play a part in the design of MCS? For instance, in the oligopolistic oil and gas sector do MCS measure parameters like customer satisfaction/customer derived value like in the competitive Fast Moving Consumer Goods (FMCG) industry. Besides, are the extent of cost controls less in an oligopolistic industry as compared to FMCG?

Are control systems different for an infrastructure company resorting to non-recourse financing and operating on BOT (Build – Operate – Transfer)/ BOOT (Build – Operate – Own - Transfer)/BOLT (Build – Operate – Lease - Transfer) basis as opposed to companies financed conventionally? For instance, a Special Purpose Vehicle (SPV) such as the Dabhol Power company formed by 3 different entities-the developer, the machinery supplier and the engineering consultant may involve appropriate control measures relevant to the needs of each partner as well as the needs of financial institutions financing the SPV as opposed to a single owner company. Also, the fact that financial institutions/banks do not have recourse in the form of fixed assets to realize their debts in the event of default by the borrower means that the conditions imposed by them would themselves call for a unique set of monitoring parameters and control system.

MCS vis-à-vis old economy and new age companies

The flat structures in new age companies as opposed to the conventional pyramidical structures, large span of control (e.g. 100 call centre executives reporting to 1 manager) and the overall policy of being lean and mean brings forth its own challenges in design of an MCS in new age companies. How do MCS change for BPO's or contract research outfits that report to an offshore client?. Does the IT intensity and IT savviness of new age companies make for superior control systems?

How does size of an organisation impact MCS?

Are there significant differences in MCS for a +Rs 1000 crore company as opposed to a Rs 200 crore company as opposed to a Rs 10 crore company within the same industry? Would it be largely in regard to financial controls or people controls or corporate governance? Similarly, does the nature of MCS change from a 44,000 person strong company like Tata Steel to a 10,000 person strong company like Essar Steel purely by virtue of the reduction in manpower strength.

Do MNC's have different MCS?

The design of a MCS varies depending on the subject organisation as to what type of responsibility centre it is-whether a revenue centre or cost centre and this becomes particularly relevant to decide what to assess –the effectiveness or efficiency. In this regard, many MNC operations in India are merely cost centres and the focus of coverage of the system would be much narrower. This also explains the excessive emphasis on 'Transfer pricing' as a control tool in MNC's as opposed to Indian majors. MNC's purportedly may have their own systems depending on their origin whether in UK or Germany or US or Japan or Korea. Do their MCS vary widely and how do they compare with the MCS of Indian FMCG majors.

Culture, Style and a Radically New Approach

There is often a tendency to confuse between strategy execution control and task control- while the latter is highly systematic the former is less systematic but more pervasive from the organisational context, as a result, for instance, in FMB's where clear lines of authority, responsibility and accountability are often blurred do conflicts emerge?

What are the distinctive ways through which various types of organisations measure the performance of the unit as a whole and the performance of managers separately and the criteria that will motivate mangers to utilize assets efficiently. What type of organisations if any, have control criteria that will discourage business managers from sacrificing long term advantages for short term gains.

The central purpose of control being to promote goal congruence, it is also pertinent to examine the influence of culture and management style on MCS as well as the importance of formal control (rules, manuals etc.) versus informal control. It would also be pertinent to find out as to the type of organisations that have interactive control systems and if so, the nature of operations/ activities that demand interactive systems and further whether interactive control systems are cost effective and superior to non-interactive systems. Are interactive systems primarily to counter strategic uncertainties or they are also relevant as a control system for normal strategy execution.

In a new approach to leadership in organisations that utilizes concepts of quantum physics such as 'field theory', it has been said that culture, values, ethics and vision are fields that are unseen forces. Also, any organisation is in a perpetual state of chaos. To bring about clarity, everyone should have access to the fields and this is best done by providing maximum information. Senior people in the organisation should be beacons of information pulsing out congruent messages and should be stating, clarifying, reflecting and filling the space with messages. This would have a wondrous capacity to organize into a coherent and capable form. If this could indeed be implemented, very little control would be necessary and then management control systems far from having a negative connotation and be the subject matter of research could become expendable leaving management to spend far more productive time in continuous improvement and innovation.

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Target Negotiations and "Gaming" have reduced in GE's Planning Process

Corporate atmosphere focussed on achieving stretch goals

"It used to be the '2-4-3' argument at every meeting. The BU would come in with a target of 2, the corporate would have a target of 4 and we would ultimately end up meeting with a target of 3. You can run a business that way"

"We got around that by using stretch goals and changing incentives away from just 'hitting budgets'. We removed the underbrush so now everyone can see what's going on. Only a handful of people used to know the goals and budgets, but now everyone in the organisation knows and we are planning improving faster than ever"

"A flat organisatonal structure with responsibility and accountability at every level takes gaming out of the process. We used to have 200 people getting options, but now we have over 18,000 people getting options. Instead of shooting for 'making budget' people are focussed on actually doing better that they've done before."

"But you can't do that unless you trust the employees. And to trust employees, there can't be any deadweight."

Indian Textile Industry (Cotton and Man-Made Fibre) An Overview

R. S. Verma

"A few textile mills is not Industrialisation. It is playing with it. Industrialisation is that which produces steel for machines. Industrialisation means producing steel for steel for steel"

– Jawaharlal Nehru

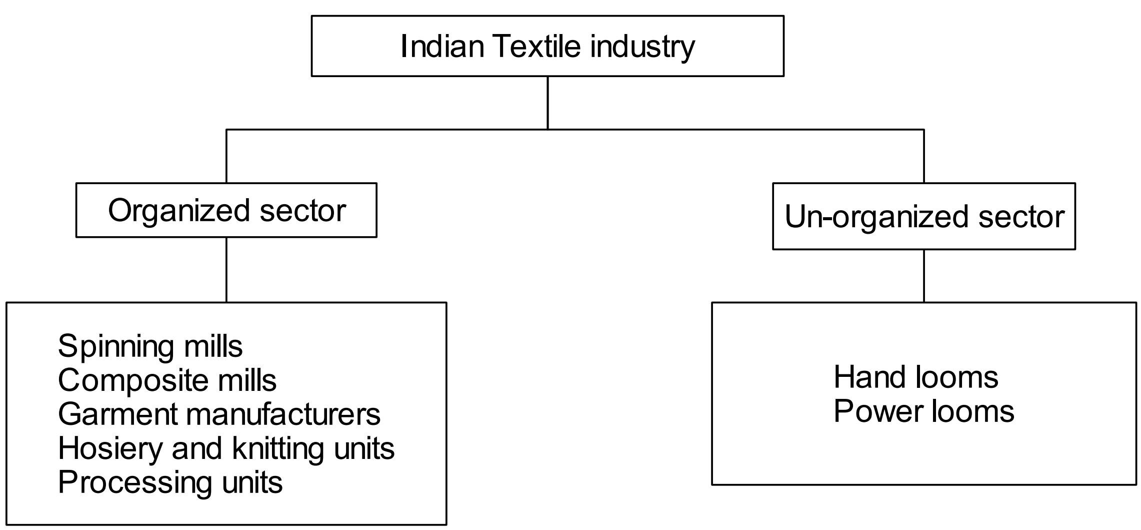
Present scenario and economic perspective

India is the second largest producer of textiles in the world, accounting for 20 percent of the world output next only to China. The Indian textile industry constitutes 14% of industrial output and 4% of GDP. It manufactures cotton and blended/ synthetic products. It is the second largest foreign exchange earner. In 2004-05, the Indian textile exports stood at US $ 13.52 billion.

Organisational Structure of Textile Industry

Textile industry is extremely varied with hand spun and hand woven sector at one end and capital intensive sophisticated mill sector at the the other. There is an intermediate segment of power loom units representing the decentralized small sector which is scattered mostly in rural and semi-urban areas. The power loom and hand loom confine themselves to weaving operations, while the mill sector undertakes spinning, weaving and processing operations. The mill sector can be further classified into spinning mills which restrict themselves to production of yarn and composite mills which produce yarn and process the same into fabric. Besides, other players in the textile industry are garment manufacturers and knitting industry. Organisational structure of the Indian textile industry is depicted in the following chart:

Organisational Structure of Indian Textile Industry



Spinning Industry: Spinning industry is an intermediate industry providing raw material to weaving units. It has made steady progress over the years. The total spindles installed rose to 39.03 million (including SSI) in 2002-03 from 37.91 million in 2000-01.

Table 1: Sector-wise Distribution of Spinning Mills (As of 31.03.2005)

Sector	No. of mills	Spindles (In millions)	%age share in total spindles
State	72	19.21	7.01
Private	159	220.27	80.37
Cooperative	1335	34.60	12.62
Total	1566	274.08	100.00

Source: Office of The Textile Commissioner

Composite Mills: There are around 223 composite mills in the organized sector facing stiff competition from the powerloom sector particularly in the cheaper varieties of cloth market. Table 2 gives the trends of the composite mills:

Table 2: Growth of Composite Textile Mills

Year	No. of mills
2002-03	276
2003-04	223
2004-05	223

Source: Office of The Textile Commissioner

Garment Industry: The garment industry produces ready to wear clothes. The industry exports most of its produce and in the year 2001-02 garments exports stood at US $ 4.42 billion which however, decreased to US $ 4.35 billion in 2002-03 because of overall down turn in the economy. Garment industry is one of the major foreign exchange earner for the country. It contributes over 16% in foreign exchange to the govt. exchequer. Table 3 gives the trend of garment export from India :-

Table 3: Export of Garment (in million US $)

Year	Amt.
2001- 02	4419.1
2002-03	4346.3

Source: Apparel Export Promotion Council, Annual Report 2001-02, Ministry of Textiles, Govt. of India, Annual report 2004-05

Hosiery/Knitting Industry: The hosiery/knitting industry consumes 20% of the total cotton yarn consumption. This sector is showing its large presence by contributing 17% to the total cloth production.

Processing industry: Processing industry is an ancillary industry which caters to the requirements of yarn and fabric manufacturers. The main processes involved are mercerizing, bleaching and dyeing of yarn and cloth. Earlier, the processing activity was performed by the weaving mills.

Handlooms: Hand loom sector is largely dependent on the organized mill sector for supply of its principal raw material namely, yarn of different counts in the form of hank. Exports of handlooms in the year 2002-03 stood at Rs. 2,633.27 Crore

Power looms: Power looms are mainly in the decentralized sector and have substantial cost advantage over the composite mills. This sector has been growing steadily over the years. The installed capcity for year 2004-05 was 19.03 lakhs

Raw materials

The basic raw materials for yarn Industry are cotton and man-made fibres. Yarn is produced by using either cotton or cotton blended with viscose or pure polyester or acrylic.

Cotton

Despite the inroads made by man-made fibers in the textile industry, cotton still accounts for nearly half of the total raw material required by the Industry all over the world. In India the percentage is nearly 75% of the total fibre consumption in spinning mills and 56% of the total fibre consumption in the textile sector. Although, India has about 90 lakh hectares of land under cotton cultivation, its production of cotton is pretty low because of low yield. Table 4 gives the data on area under cotton cultivation, yield and production of cotton in during last five years:

Table 4: Area, yield and production of cotton in India

Year	2004-05 (Prov)
Area under cultivation (Lakh hectares)	89.69
Cotton yield (kg. per hectare)	404
Production (Lakh bales of 170 kgs. each)	213

Source: Cotton Advisory Board

Yield of cotton in India is very low as compared to leading cotton producers in the world. A comparison of India's cotton yield with international competitors is presented in table 9.

Man made fibres

The man made fibres are mainly polyester fibre, viscose fibre and acrylic fibre. The production figures of these varieties of fibres show that the consumption of man made fibre has been supplemented by the continuously rising demand of the yarn produced in India. Table 5 presents the production of man made fibres in India:

Table 5: Manmade fibre Production (in million kg.)

Year	Polyester	Viscose	Acrylic	Total
2004-05 (Prov.)	644	248	128	1020

Source: Office of The Textile Commissioner

It is observed that production of man-made fibres in continuously on the rise to supplement the rising demand.

Production of yarn

The production trend of in the country is presented in the table 6.

Table 6: Year-wise productions of yarn in India (in million kgs.)

Year	Cotton yarn	Blended yarn	Synthetic yarn	Total
2004-05 (Prov)	223.2	61.2	37.7	322.1

Source: Ministry of Textiles, Govt. of India, Annual report 2004-05

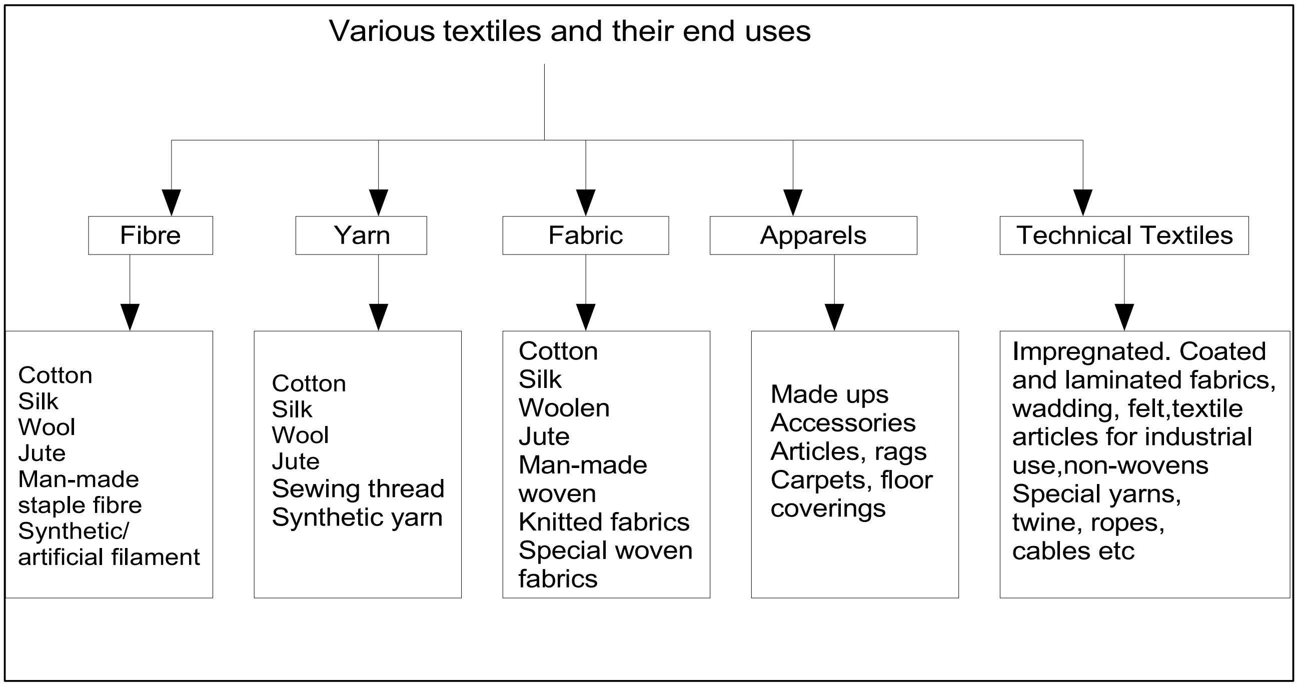
From the above table it is observed that the yarn production is continuously on the increase. The growth in production of yarn in all the segments signifies the growing demand in consumption.

Given the overall macro scenario, it is the purpose of this paper to address certain micro aspects of the Textile industry

Micro Aspects

Types of textiles and their end uses

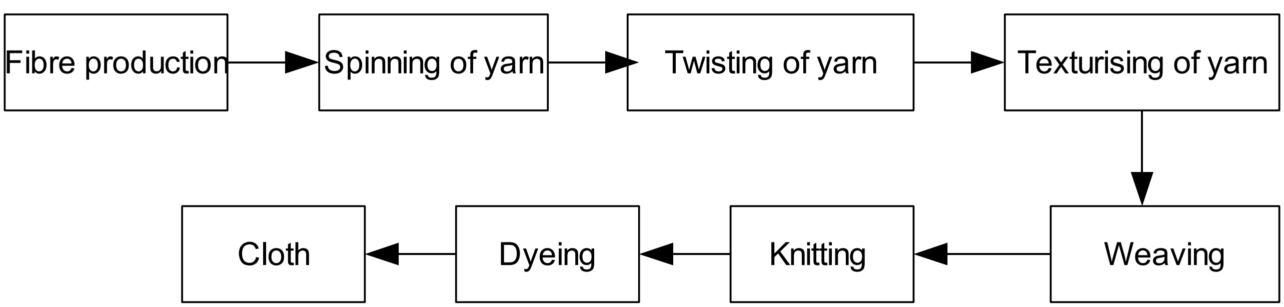
Textiles comprise a number of variates with varying end uses. This is presented in figure 1.



Integrated production process structure

The raw material in textile industry i.e. fibre passes through various stages of processing till it gets converted into the required form for end use. A brief typical production process structure is summarised in the figure 2 below:

Integrated Production Process Structure



Organisational structure in a typical textile mill

Manufacture of textile involves a number of cumbersome processes which in turn requires a proper organisational structure for monitoring the performance of the mill first function wise and then as a whole. Organisation structure in a composite textile mill is presented in figure 3.

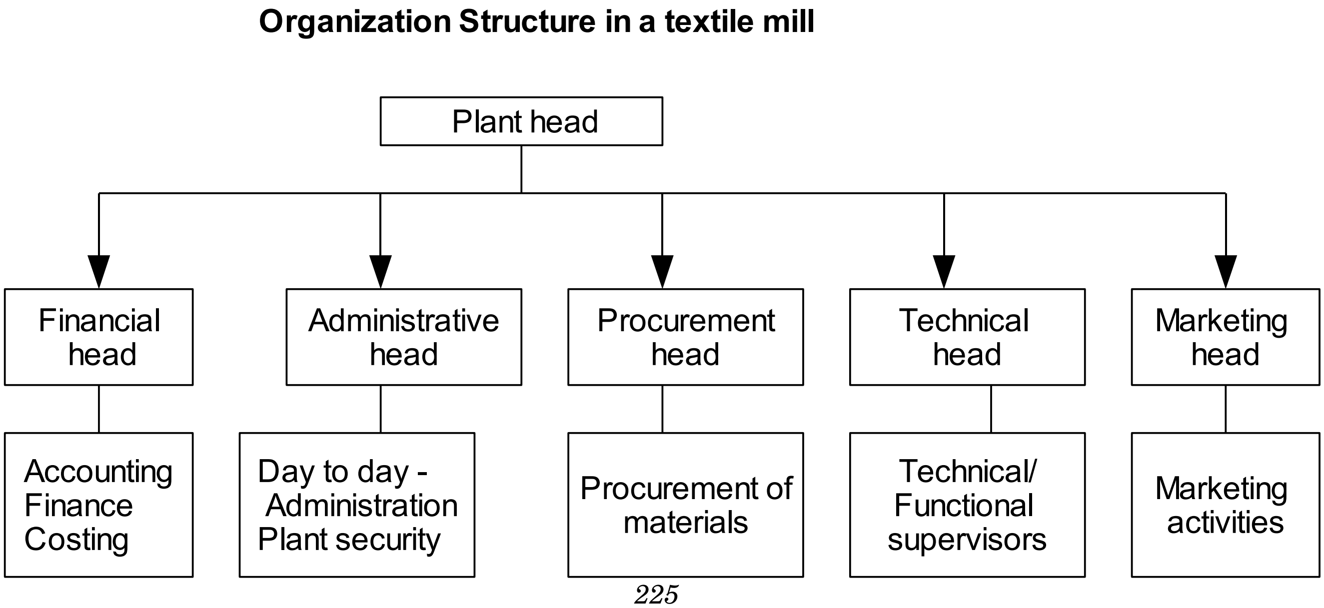
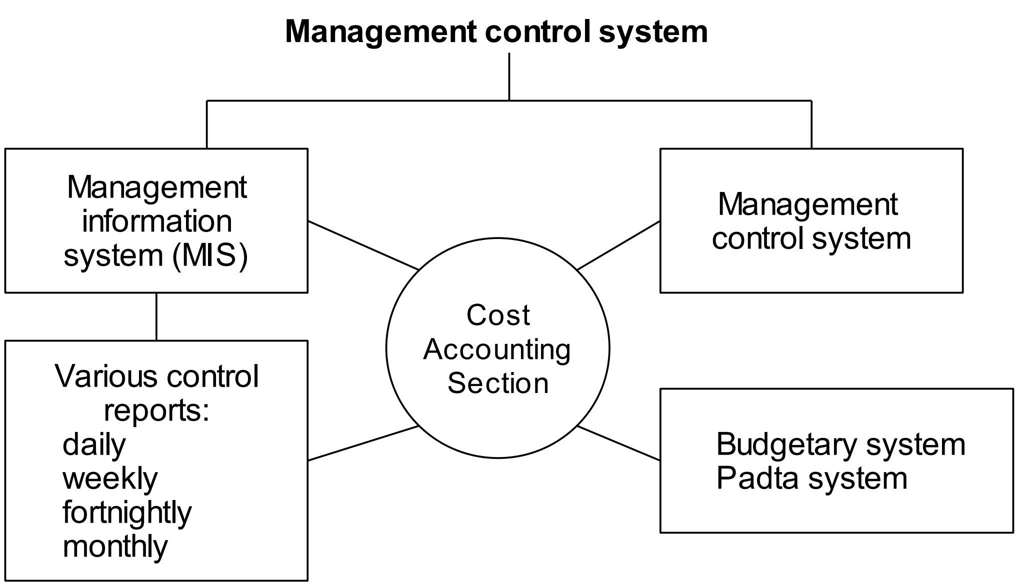


Figure 3: Organisation Structure in Composite Textile Mill

Management control system

In textile industry, the management control system is of paramount importance because of diverse and varied nature of activities. The control system is a combination of two broad factors viz. Information and control. Various control reports are generated at operational levels and submitted to concerned departmental heads. There is a general practice of preparing budget on annual basis and then to convert the same in terms of monthly targets. These targets are used to compare the actual performance. In some cases, budgets are prepared on monthly basis itself.

Monthly planning is done before the commencement of the month in the joint budget meeting of concerned departmental heads and the budgets are formulated by the Cost Accounting Section and circulated to all the concerned heads. In Birla Group, purta system (a traditional form of budget) is used in practice. The reporting and control is an ongoing process in a textile mill. Monitoring is rigorous and elaborate. The broad process of monitoring and control is given in figure 4:



Macro aspects

Word textile scenario

Till 31.12.1994, textiles exports were largely governed by various bilateral agreements. India had its own Multi Fibre Arrangement (MFA) with major countries. From 1.1.2005, the quantity restrictions on the bilateral agreements under the MFA will be governed by the Agreement on Textiles and Clothing (ATC). As per ATC, the textile quotas have been phased out and the textile sector fully integrated into WTO w.e.f. 1.1.2005. Developing countries with both textile and clothing capacity may be able to prosper in the new competitive environment in the post MFA regime. Global textile trade is expected to triple from US $ 395 billion to US $ 1005 billion in the post quota era. Presently India's share in this trade is only 3.17%.

Capacity and production

Total world capacity vis-a vis India is shown in the table 7;

Table 7: Installed capacity (2003)

Segment	Unit Mn. no	World	India	India as a % of world
Spinning	Spindles	189.26	37.88	20.01
Weaving	Looms	9.49	5.85	61.64

Source: Compendium of International Textile Statistics

Table 8 Production (in Mn. kg.)

Segment	World	India	India as a % of world
Fibre 2003	57680	7127	12.36
Yarn 2004	22266	2248	10.10
Fabric 2004	11691	1704	14.58

Source: Compendium of International Textile Statistics

From the above it is seen that India's share in respect of world spinning is 19.70% which has tremendous scope for growth. Similarly, in respect of the production of fibre, yarn as well as fabric a lot of scope exists for growth and improvement.

Area, production and productivity of cotton

The scenario is shown in the table 11:

Table 9: Cotton Fibre (2003-04)

Major countries	India	China	USA	Paki stan	World
Area ('000 hectares)	7785	5110	4858	3040	31882
Production (million kg)	3009	4870	3975	1734	20610
Contribution to the world (%)	14.60	23.63	19.29	8.41	100.00
Ranking	3	1	2	4	-
Productivity (kg./Hectare)	387	953	818	570	646

Source: Compendium of International Textile Statistics

As is evident, world production of cotton is 20610 million kgs. in which India's share is only 14.6%. China supersedes USA which stands in the second position. In terms of cotton productivity, again China tops and India ranks even below Pakistan. Despite quiet a large area under cotton cultivation, India's cotton production is very low because of drastically low productivity. Since, India already has the largest area under cotton cultivation, it can supersede China by doubling the cotton yield itself.

Technical textiles

Technical textile is a fast growing segment at international level. Technical textiles have numerous applications in automobiles, industry, sports, medical, agriculture, packaging etc. World trade volume of technical textiles for 2005 is estimated to the tune of US$ 106899 million which expected to grow by around 6% in value terms in the next 6 years. Major consumers of technical textiles are USA 23%, Western Europe 22%, China 13%, Japan7% and rest of the world 35%. India can launch a concerted drive to foray in to this sector and capture the sizable market share too.

Exports

As per the statistics available for 2003, the world textile export stood at US$ 169.50 billion and export of clothing was US$ 225.40 billion. Table 10 and 11 present leading exporting countries along with India's comparative position:

Table 10: Leading exporters of textiles (2003)

Country	Value (billion US$)	% share
European union	58.94	34.77
China	26.90	15.87
Hong kong	13.08	7.71
USA	10.92	6.44
Korea republic	10.12	5.97
Taipei	9.32	5.50
India	**6.59**	**3.89**
Japan	6.43	3.79
Pakistan	5.81	3.43
Others	21.39	12.63

Table 11 Leading exporters of clothing (2003 225)

Country	Value (billion US$)	% share
European union	59.95	26.60
China	52.06	23.10
Hong Kong	23.15	10.27
Turkey	9.94	4.41
Mexico	7.34	3.26
India	**5.92**	**2.62**
USA	5.53	2.45
Others	61.51	27.29

It is apparent that India's share in world export of textiles and clothing is only 3.89% and 2.62% respectively. Concerted efforts need be made to capture major share in the global market.

Cost factor: Cost of production of yarn and fabric of major players is given in tables 13 and 14:

Table13: Cost of production of yarn (2003) (in US$ per kg.)

Item	Brazil	China	India	Italy	Korea	Turkey	USA
Ring yarn	2.61	2.76	**2.45**	3.59	2.68	2.85	2.86
Open End yarn	2.31	2.51	**2.17**	2.75	2.35	2.48	2.30
Textured yarn	1.90	1.40	**2.06**	2.12	1.68	2.69	2.13

Table 14: Cost of production of fabric (2003) (in US$ per yard)

Item	Brazil	China	India	Italy	Korea	Turkey	USA
Ring yarn fabric	0.652	0.691	**0.663**	1.1000	0.754	0.738	0.844
Open End fabric	0.600	0.647	**0.614**	0.953	0.696	0.675	0.746
Textured yarn fabric	0.548	0.506	**0.591**	1.061	0.551	0.636	0.920

The cost statistics indicates that cost-wise, India's position is quite strong as compared to other leading players, yet India's share in total world textile trade is only 3.17%. In the post quota regime, India's low cost of production of yarn and fabric positions it in a strategic advantage to compete with leading global players particularly China.

Current Indian scenario

India's Exports

Textile exports have been showing impressive growth. The share of the textile industry in the total exports from the country now stands at more than 30%. Textile exports increased from US$ 11,888 million in 2002-03 to US$ 13,523 million in 2004-05. The trend of textile exports for the last three years is given in table 15:

Table 15: Export of Textiles (million US$)

Year 2002-03	Year 2003-04	Year 2004-05
11888.14	13515.69	13523.87

Source: Office of The Textile Commissioner

National Textile Policy 2000

The textile has considerable employment and growth potential. Consequently, the government has been paying particular attention in formulating policies for regulating the development in the desired direction. Various policy measures enunciated by the government through the National Textile Policy 2000 are discussed below;

- To facilitate the textile industry to attain and sustain a pre-eminent global standing in the manufacture and export of clothing.
- To place strategic thrust on technology up gradation, product diversification and strengthening of raw material base in the country.
- To endeavour to achieve textile export target of US$ 50 billion by 2010.
- To set up a venture capital fund to fund diversified needs of the industry.
- To encourage private sector to set up world class eco-friendly integrated textile complexes and to revitalize the working of textile research associations.

Government Initiatives

With the abolition of quotas from January 2005 under the International Multi-fibre Arrangement (MFA), the Indian textile industry has been opened to global competition. To face this challenge, the Govt. of India has initiated a number of steps. The first initiative was the launching of Cotton Technology Mission with an outlay of RS.593 cores in March 2000.

In the Union Budget of 2004-05, the following announcement were made:

- Except for mandatory excise duty on polyester filament yarn including texturised yarn, synthetic and artificial fibre/ filament yarn, the whole value addition chain has been given excise exemption option.
- Additional excise duty on textiles and textile articles has been abolished.
- Basic customs duty on various textile machinery has been reduced to 5%.

In the Union Budget of 2005-06, the following further measures have been announced:

- Increase in the Technology Up gradation Fund Scheme to Rs. 435 cores.
- Provision of capital subsidy of 10% for processing sector.

- De-reservation of thirty textiles products and hosiery items from the ambit of Small Scale Industry.
- Creation of Special Purpose Vehicle (SPV) for improving infrastructure in manufacturing with an investment of RS.10000 crore.
- Drastic reduction in excise duty on Polyester Filament yarn and Polyester texturised yarn from 24% to 16%.
- Optional CENVAT Scheme extended to stand alone texturising units.
- Reduction in peak custom duty from 20% to 15%.
- Duties on specified textile machinery items raw materials and spare parts for manufacture of such machinery reduced by 50%.

In addition to the above, the various other measures taken by the Govt. are summarised here under:

- Extension of Technology Up gradation Fund Scheme till 31.03.2007
- Extension of Technology Mission on Cotton till 31.03.2007
- Launching of Apparel Park for Exports Scheme.
- Launching of Textile Centre Infrastructure Development Scheme
- Launching of High-Tech Weaving and Processing Parks for modernisation of Powerloom Sector.
- Setting up of an International Apparel Mart at Gurgaon for providing world class facility to apparel exporters.

Various policy initiatives taken by the govt. are expected to have significant effect on performance of the textile industry. Whereas these policy measures have great potential to fuel the growth of the textile industry, at the same time the textile industry has also great responsibility on its part to respond pro actively by initiating in house measures like up gradation of technology, cost management, quality management and superior strategies suitable for repositioning the Indian textile industry in global context.

Conclusion

With effect from January 1, 2005 WTO regime has replaced the Quota regime in world textile trade. This opens the world textile trade to fierce global competition particularly among major players like USA, China, Japan, Brazil and European Union countries. India stands at cross roads to meet the challenge. A SWOT analysis presented in figure 5 gives out the probable environment of Indian textile trade vis-a-vis the world textile trade.

SWOT Analysis of Indian Textile Industry vis-a-vis World Textile Trade

Strengths

1. Strong raw material base
2. Low cost of labour
3. Largest cotton growing area
4. Vast pool of skilled manpower
5. Large production capacity
6. Managerial competence
7. Entrepreneurship

Weaknesses

1. Fragmented industry
2. Poor cotton quality and low yield
3. Labour reforms constraints
4. Reluctance in up gradation of technology and infusion of fresh funds
5. Low penetration of IT
6. Lack of effective and self sufficient umbrella platform for unorganized sector

Opportunities

1. Dismantling of quota restrictions opens tremendous opportunities for exports.
2. Favourable government initiatives and support measures
3. Tremendous growth potential in technical textiles
4. Industry friendly proactive government policies

Threats

1. Fierce global competition
2. Strong competition from China
3. Challenge from international brands
4. Lack of economies of scale
5. Lack of cost competitiveness

There are inherent strengths which India can capitalize. In particular, strong raw material base,vast pools of skilled man power coupled with large production capacity place India in a strong position. Weaknesses need to be overcome by concerted efforts in cotton research, technology upgradation and aggressive marketing strategy and application of state of the art cost management tools and techniques. India can strive to take maximum advantage of the opportunities to face the challenges at global level particularly with respect to China and Japan. This way India's share in the world textile trade can be increased from 3% to 8% within the next five years to achieve export value of US $50 billion by 2010 as envisaged in the National Textile Policy 2000.

Annexure A presents an exhaustive list of modern state of art cost management tools and techniques that need to be implemented to bring Indian textile industry up to global level particularly in reference to China and Japan.

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Managing Costs – An Overview of Tools and Techniques

Compiled by R. S. Verma

1. **Activity based costing:** It refers to the method of working out cost of a product or service based on activities linked to the particular product or service.
2. **Balance score card:** It is a tools that fosters a balance among different strategic measures in an effort to achieve goal congruence, thus encouraging employees to act in the best interests of the organisation.
3. **Business process re-engineering:** It is the search for and implementation of radical changes in business processes to achieve breakthrough results in terms of major gains in levels of performance and reductions in unnecessary costs.
4. **Bench marking:** It refers to the process of measuring products, services and practices against those of leading performers. Any thing taken or used as a point of reference or comparison
5. **Cost audit:** It is the verification of the correctness of the cost accounts and of adherence to the cost accounting plans.
6. **Energy audit:** An evaluation of energy consumption, as in a home or business, to determine ways in which energy can be conserved and cost reduced.
7. **Enterprise-wide cost management:** Measures end to end cost of designing, sourcing, producing, and delivering one product or a set of products to the customer.
8. **Enterprise resource planning:** ERP is an IT solution. It seeks to streamline and integrate operation processes and information flows in the company to synergise the resources of an organisation namely, men, material, money and machine through information.
9. **Just in time:** A strategy for inventory management in which raw materials and components are delivered from the vendor or supplier immediately before they are needed in the manufacturing process.
10. **Kaizen:** It refers to the Japanese practice of continuous improvement through small incremental changes. Kaizen is people oriented and involves every one in the organisation for improvement.
11. **Life cycle costing:** It is the accumulation of costs for activities that occur over the entire life cycle of a product from inception to abandonment by the manufacturer and the customer.
12. **Management audit:** It is an examination, review and appraisal of the various policies and actions of management for evaluation of methods and performance in all areas of the enterprise.
13. **Marketing cost management:** Identifies products, brands, segments, and markets that offer the largest growth with the least incremental marking and selling expenditure.
14. **Out sourcing:** The procuring of services or products, from an outside supplier or manufacturer in order to cut costs.
15. **Production cost management:** Minimizes total cost of design, procurement and manufacture by continuously optimizing the cost of components.
16. **Six sigma:** It is a tools to eliminate wasteful variation, change business culture and create the infrastructure an organisation needs to initiate and sustain greater productivity, profitability and customer satisfaction rates.

17. **Standard costing:** It is a control technique which compares standard costs and revenues with actual results to obtain variances which are used to stimulate improved performance.

18. **Strategic cost management**: It is the application of cost information provided from various sources to develop superior strategies to obtain sustainable competitive advantage.

19. **Support cost management:** Improves productivity and efficiency of line functions with minimizing resources needed to effect such improvements.

20. **Target costing:** It refers to a market driven design methodology that estimates the cost of a product and then designs the product to meet that cost.

21. **Total quality management:** TQM is a systematic way of guaranteeing that all activities within an organisation happen the way they have been planned in order to meet the defined needs of customers.

22. **Total productive maintenance:** TPM is much more closely aligned to production than a maintenance department in mass production. One-piece flow with zero defects requires high levels of process capability that, in conjunction with error proofing, allow us to reduce or eliminate inspection.

23. **Transformation cost management:** Directs the efforts of change management practices towards areas where they will have the maximum impact on costs.

24. **Value added cost analysis:** It analyses the difference between the cost of what goes into an item and the net price for which it is sold.

25. **Value chain analysis:** Value chain is the linked set of value creating activities from the basic raw material sources for suppliers to the ultimate end use. This concept seeks to determine where in the company's operations – from design to distribution – customer value can be enhanced or costs lowered.

26. **Value engineering**: It is a systematic method to improve the "Value" of goods and services by using an examination of Function. Value, as defined, is the ratio of Function to Cost. Value can therefore be increased by either improving the Function or reducing the cost.

27. **Zero base budgeting:** A method of budget review and evaluation that requires all projects and programs, new and old to justify all resources.

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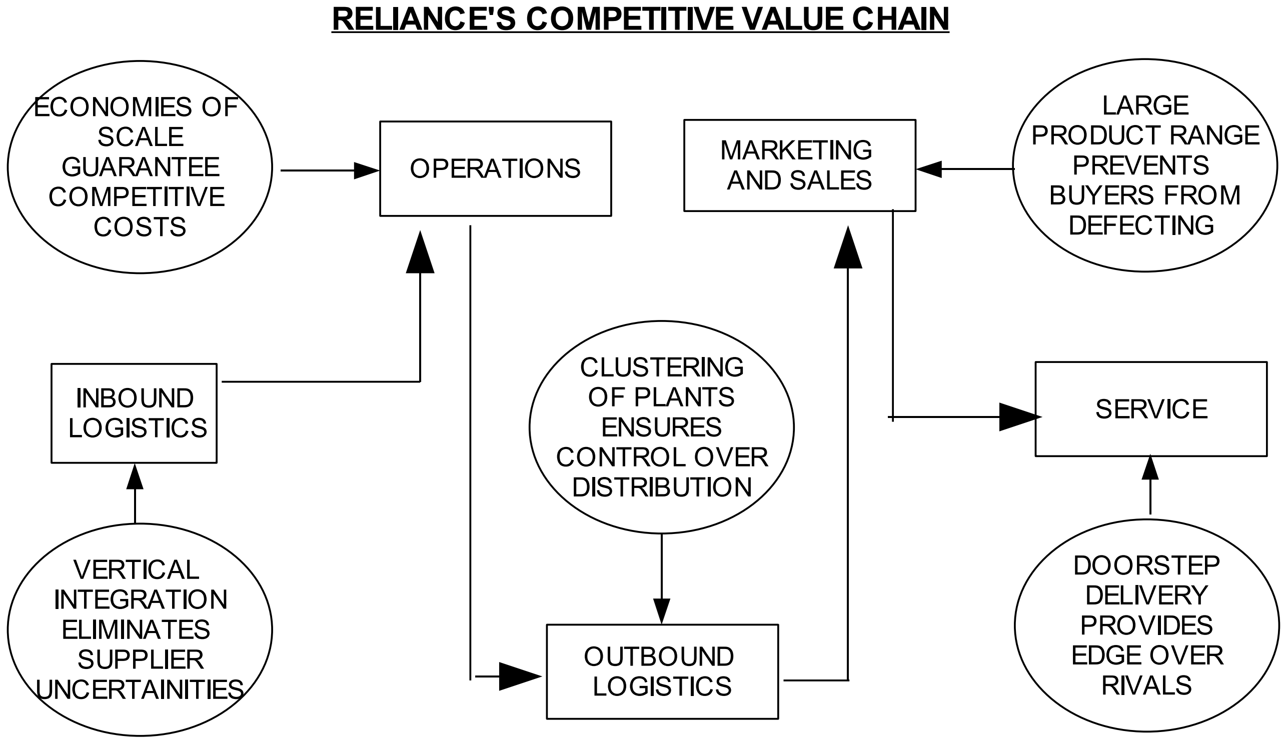
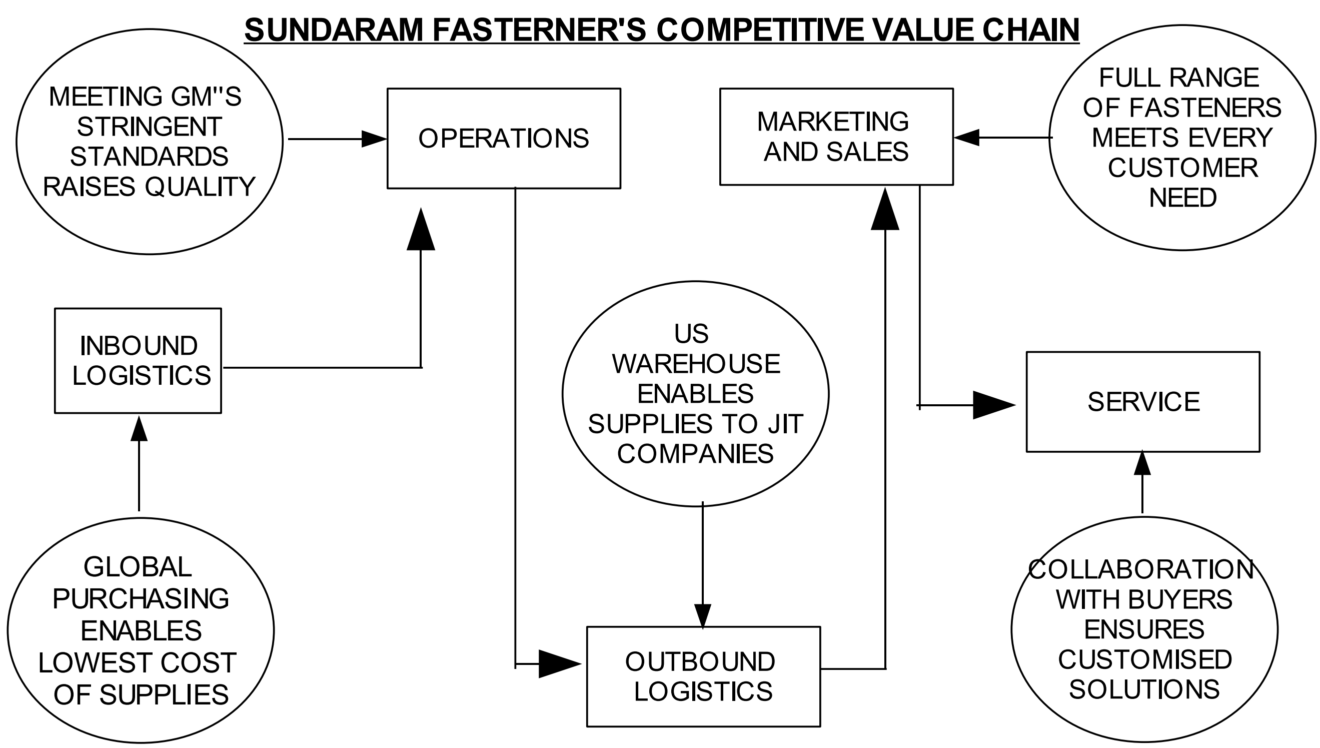
Value Chain at Reliance and Sundaram





Source: Business Today, July 7-21, 1997 pp. 63,67

The Agile Supply Chain

A. S. Chaubal

We live in interesting times. Powerful forces are re-shaping the global business scene: financial and economic upheaval in the Far East, Latin America and Russia is creating a tidal-wave of change in the competitive environment. Organisations that once felt insulated from overseas low-priced competitors now find that they too must not only continue to constantly create new value for customers, but must do so at a lower price.

To meet the challenge of simultaneously reducing cost and enhancing customer value requires a radically different approach to the way the business responds to marketplace demand. One of the keys to success is the creation of an **agile supply chain** on a worldwide scale

The Agile Supply Chain

The term agile refers to being constantly on alert for any possible changes in business environment, that would create new opportunities for developing businesses. Managements of today keep on being "lean" meaning thereby that the investments in both fixed and current assets to be kept at lowest possible level for running the business profitably. It also makes it possible of the firm to change the line, the product or the business as and when the prospects of the current business activities change. In volatile market it is necessary for the management to be lean and at the same time agile.

There is now widespread recognition of the role that supply chain management can play in enabling organisations to compete in volatile markets. However, experience suggests that there are significant barriers both within the company and between its upstream and downstream partners in achieving the required level of responsiveness across the chain as a whole. Continuous change is a phenomenon with which the supply chains have had to cope for some time. But the rate, scale and unpredictability of change is today's turbulent business environment is seriously challenging supply chains based on 1990s best practice. The logistics environment of the new millennium will have to contend with:-

- turbulent markets that change rapidly and unpredictably
- highly fragmented 'niche' markets instead of mass markets
- ever greater rates of technological innovation in products and processes
- shorter product life-cycles
- growing demand for tailored products - 'mass customization'
- the delivery of complete 'solutions' to customers, comprising products and services.

Supply Chain Management (SCM) is one such application that is gaining a vast acceptance among the companies, especially in manufacturing or those having a wide retail network. It is, in fact, quite similar to the concept of JIT or 'Just in Time', introduced by Japanese several years ago.

The SCM is very important to the manufacturing and the transportation industry. This can be gauged from the fact that transportation costs account for nearly 10 to 15 per cent and inventories accounts for roughly 25 per cent of sales turnover. This is mainly due to the compulsion of keeping varied product range, frequent changing of product due to shortened product life and globalisation of market.

A preview of Supply Chain Management

Supply chain management is the combination of art and science that goes into improving the way your company finds the raw components it needs to make a product or service, manufactures that product or service and delivers it to customers. The following are five basic components for supply chain management.

1. Plan – This is the strategic portion of supply chain management. You need a strategy for managing all the resources that go toward meeting customer demand for your product or service. A big piece of planning is developing a set of metrics to

monitor the supply chain so that it is efficient, costs less and delivers high quality and value to customers.

2. Source – Choose the suppliers that will deliver the goods and services you need to create your product or service. Develop a set of pricing, delivery and payment processes with suppliers and create metrics for monitoring and improving the relationships. And put together processes for managing the inventory of goods and services you receive from suppliers, including receiving shipments, verifying them, transferring them to your manufacturing facilities and authorizing supplier payments.

3. Make – This is the manufacturing step. Schedule the activities necessary for production, testing, packaging and preparation for delivery. As the most metric-intensive portion of the supply chain, quality levels, production output and worker productivity get measured.

4. Deliver – This is the part that many insiders refer to as "logistics." Coordinate the receipt of orders from customers, develop a network of warehouses, pick carriers to get products to customers and set up an invoicing system to receive payments.

5. Return – The problem part of the supply chain. Create a network for receiving defective and excess products back from customers and supporting customers who have problems with delivered products.

Role of Software in SCM

Supply chain management software is possibly the most fractured group of software applications on the planet. Each of the five major supply chain steps previously outlined composes dozens of specific tasks, many of which have their own specific software. There are some large vendors that have attempted to assemble many of these different chunks of software together under a single roof, but no one has a complete package. Integrating the different software pieces together can be a nightmare. Perhaps the best way to think about supply chain software is to separate it into software that helps you plan the supply chain and software that helps you execute the supply chain steps themselves.

Goal of installing supply chain management software

Before the Internet came along, the aspirations of supply chain software devotees were limited to improving their ability to predict demand from customers and make their own supply chains run more smoothly. But the cheap, ubiquitous nature of the Internet, along with its simple, universally accepted communication standards have thrown things wide open. Now, theoretically anyway, you can connect your supply chain with the supply chains of your suppliers and customers together in a single vast network that optimizes costs and opportunities for everyone involved. This was the reason for the B2B explosion; the idea that everyone you do business with could be connected together into one big happy, cooperative family.

Of course, the reality behind this vision is that it will take years to come to fruition. But considering that B2B has only been around for a few years, some industries have already made great progress, most notably consumer-packaged goods (the companies that make products that go to supermarkets and drug stores), high technology and autos.

The roadblocks to installing SCM software

1. Winning trust from your suppliers and partners

Supply chain automation is uniquely difficult because its complexity extends beyond our company's walls. our people will need to change the way they work and so will the people from each supplier that we add to our network. Only the largest and most powerful manufacturers can force such radical changes down suppliers' throats. Most companies have to sell outsiders on the system.

Moreover, our goals in installing the system may be threatening to those suppliers, to say the least. For example, Wal-Mart's collaboration with P&G meant that P&G would assume more responsibility for inventory management, something retailers have traditionally done on their own. Wal-Mart had the clout to demand this from P&G, but it also gave P&G something in return-better information about Wal-Mart's product demand, which helped P&G manufacture its products more efficiently. To get our supply chain partners to agree to collaborate with us, we have to be willing to compromise and help them achieve their own goals.

2. Internal resistance to change.

If selling supply chain systems is difficult on the outside, it isn't much easier inside. Operations people are accustomed to dealing with phone calls, faxes and hunches scrawled on paper, and will most likely want to keep it that way. If you can't convince people that using the software will be worth their time, they will easily find ways to work around it. You cannot disconnect the telephones and fax machines just because you have supply chain software in place.

3. Chances of errors to start with

There is a diabolical twist to the quest for supply chain software acceptance among your employees. New supply chain systems process data as they are programmed to do, but the technology cannot absorb a company's history and processes in the first few months after an implementation. Forecasters and planners need to understand that the first bits of information they get from a system might need some tweaking. If they are not warned about the system's initial naiveté, they will think it is useless

Good SCM is very useful for countries that are already competing in the global marketplace, especially with established brand names in a saturated market.

Some countries agree that in the Internet era, supply chain needs to respond more quickly and have wider reach particularly for the electronics and computer related industries.

A Case Study - Maruti Udyog Ltd

In the drivers seat -Company Background

Maruti collaborated with Suzuki of Japan to produce cars in 1983. At this time, the Indian car market had stagnated at a volume of 30,000 to 40,000 cars for the decade ending 1983. With MUL's entry, the passenger car market saw a spurt in demand. The sector registered 18.6% CAGR growth in sales during 1981-90.

Business Profile

MUL is the leading automobile company in the passenger car segment with over 50% market share in FY04. It has a presence across many segments in automobiles. It is the leader in the mini and the compact segment with brands like '800', 'Zen'. 'Alto', 'Wagon R'. It also has a presence in the mid-size segment with its 'esteem' and 'baleno' brands and the 'Omni', 'Vitara', 'Versa' models.

Initiatives taken

Vendor rationalisation was done and the number of vendors was reduced to 220 in FY04 from over 305 two years prior to FY04. This helped enhance the supply chain efficiencies.

MUL's tie-up with SBI and its associate banks helped it to reach out smaller towns and cities where financing for purchase of vehicles was provided. Largely driven by this initiative, the company witnessed a 17% growth in is '800' sales. The 'Alto' too, with its reduced prices saw a 130% growth, the highest by any car in the year. MUL has 142 outlets covering over 100 cities.

The company, realizing that presence across segments is a key factor, launched the 'Grand Vitara' a top-end SUV for the Indian market.

It extended its 'true value' scheme and now accepts old cars of any manufacturer for a new MUL car.

SCM of Maruti Udyog Ltd

Maruti Udyog Ltd (MUL), the country's biggest passenger car manufacturer, has created a new supply chain paradigm that has helped it achieve substantial cost reduction, from production to distribution. Dependent on over 300 suppliers for some 7,000 components that go into nine major models and their 200 variants, the company realized the need to keep control over costs at every stage to remain competitive. For this, it realized, supply chain management was critical.

Maruti Udyog Limited, is a large-scale automobile manufacturing unit in joint venture with M/s Suzuki Motor Corporation of Japan. The unit has an installed capacity to manufacture 250,000 units per annum. MUL has been supported for Design and Implementation of EMS as per ISO 14001 and is the champion industry for Greening the Supply Chain Management program in Automotive sector.

The success of the Green Supply Chain Management program for first batch of suppliers of

Maruti Udyog Ltd. has motivated Maruti and CTI-Tetra tech team to start a program for second batch of suppliers to implement Environment Management System in their units. The program was started on 27th June, 2001 with an awareness program conducted by the MUL and the Tetra Tech teams.

CTI-Tetra Tech and Maruti Udyog Ltd. team is conducting an 'Environment Improvement Program' for MUL dealers. The program was initiated on January 15, 2001.

Transactional Efficiency

The company has implemented a fully-in-house designed and developed enterprise resource planning (ERP) application developed by a team of nearly 45 engineers which develops and upgrades applications on a regular basis, while the rest of the IT functions, including the maintenance and administration, are being outsourced, Uppal says. The in-house application covers inventory management, receipts, excise, consumption, production, sales, invoicing, exports, financial accounting, payroll, and bank reconciliation.

Maruti has implemented an in-house designed supply chain application, the extended ERP on the 'Extranet' that links both dealers and vendors.

Dealers enjoy a big advantage, says the company — they now place orders only online, even for spares, including emergency orders, as against placing orders through phone, fax or paper, as was done earlier. Also, the funds reconciliation is online and fully automated. The dealers can track the delivery status as the truck numbers, with the chassis numbers of cars despatched, can be ascertained online. The Extranet is fully integrated with the back- end ERP.

For vendors, they can not only know the supply and track the production schedule status online, but can also benefit from the elimination of daily follow-ups with the company. They can time the delivery of components depending on the production schedule and also be aware of the immediate notification of any schedule changes. Moreover, the warranty, quality information and the vendor performance ratings are available online

Big Savings

With the implementation of the extended ERP, the ordering time for dealers has been reduced significantly from 5 days to half-a-day and then to online ordering. It has also helped the company in monitoring funds for both dealers and vendors.

Maruti has spare part sales of Rs 1.35 crore per day and payments of nearly Rs 70 crore are made by the company for the 7,000 part consignments it receives everyday. It has also made the processing of financial and payroll transactions easier.

The implementation of the Delivery Instruction system has brought a true JIT (Just In Time) concept at Maruti, resulting in complete supply chain inventory reduction. While the vendors receive communication of the firm schedule two weeks in advance, they are also provided with instructions, including the date and even the exact workstation. This has resulted in inventory reduction for a large tyre vendor by some 33 per cent.

The company has also implemented a vehicle-tracking system, wherein computers directly control the process workstations and the car production schedule is fed directly into the process automation system.

The machines know “what”' car to produce and this has benefited in mass customization.

“Cost management is crucial for the supply chain management,” says Mr P. Agrawal, Deputy General Manager (Materials), MUL, adding that this was achieved only through close coordination with the vendors. This not only helped in cost rationalisation of the materials used by MUL, but also in passing the benefits of cost control and quality products to the vendors.

The exercise was begun by implementing innovative materials handling solutions in-house, resulting in cost savings by reducing wastage. MUL also gained considerably by collaborating with its vendors in localizing components supply with great impact on productivity and removing uncertainties in supply.

According to Mr Agrawal, by rationalizing the inventory holding process by precise planning of schedules for indenting components, the company not only saved on holding costs but also reduced wastage. The delivery instruction was revised from monthly schedules to daily and made location wise to indent only components to meet the assembly line requirement. The strategy was adopted to tackle the fluctuating market demand, accentuated by the intense competition in the automobile business now.

Mr Agrawal said the streamlining of the supply chain management was done after a homework of value analysis and engineering that helped it improve operator and machine productivity and reducing and recycling waste. While these practices helped MUL reduce its logistics cost considerably, its IT efforts added to efficiencies and savings.

Firm schedules issued every fortnight were further fine-tuned by an online system for replenishment of inventory on an electronic card system. This avoided inventory build up or unanticipated deliveries by vendors as supplies were made only after receipt of the indent card from MUL. This brought inventory management down to the doorsteps of the vendors, who would produce only what was indented. MUL plans to extend the electronic card system for another 16 suppliers and for 250 components, following the successful implementation with 10 vendors delivering 66 voluminous and high-value parts.

The percolation of its cost control effort has benefited major suppliers like JK Industries, which reported a reduction of tyre inventory to just 10,000 from its earlier 30,000.

The bottom-line: Savings in transportation cost and detention charges of Rs 50,000 per month. Similarly, Lucas TVS, a major supplier of components reported savings on finished goods inventory cost from Rs 3 crore to Rs 90 lakh, similar feedback had been received from other major component suppliers like Kalyani Brakes.

“WORKERS are paid to work. Not walk," observed the chairman of Suzuki Motor Corporation, Osamu Suzuki, during one of his visits to India.

And, taking a cue from him Maruti Udyog Ltd has put in place a number of measures to ensure that workers' movements on the assembly line are reduced, thus improving their productivity.

For instance, if a worker had to walk a couple of paces to get a component that went into a car, steps were taken to eliminate these. That is, if it was a small-sized component, space was made in the workers' overalls so that the "unnecessary" movement was done away with.

With the Japanese influence in the manufacturing process quite strong at Maruti, it is hardly surprising to hear the staff talk of saving a few seconds of the time taken by a worker to complete a task. This will translate into so many man-hours, which means one extra car, is how Maruti's employees will explain the savings effected.

The Japanese productivity and performance enhancement measures and the continuous process of carrying out improvements are well ingrained at Maruti. Mr Jagdish Khattar, Maruti's MD, says that a worker in one of Suzuki's plants in Japan had once given a suggestion that would have saved the company two Yen. Rather than being indifferent, executives in Suzuki took the suggestion seriously. Their explanation was that the worker had understood the concept of saving and hence his suggestion could not be ignored

With interaction and regular training, Maruti's workers also talk the same language — that of being more productive, avoiding wastage and cutting costs. For instance, Maruti was able to save about Rs 5.16 lakh a year by reducing the size of the rectangular steel blank used in the inside portion of the Alto's front door. Against a 790 mm blank earlier, the company now uses a 770 mm blank, explains an employee on the assembly line.

IT initiatives have put Maruti Udyog Ltd in top gear. The company shares the implementation success with eWorld.

Manufacturing some 1200 to 1500 vehicles, coordinating the sales of an equal number of vehicles through a 250-strong dealer network throughout the country, handling some 7,000 consignments of spare parts from nearly 350 vendors... It's a gigantic task for any organisation to carry out on a daily basis.

The process is complex and delicate. Any small error in this delicately-balanced chain can create chaos and throw the entire chain out of gear, posing a risk not only to the company but also to the stakeholders at various levels such as the ancillary units, the sales and dealer network, and even the customers.

However, at Maruti Udyog Ltd the entire process is managed smoothly. The IT initiatives taken by the company long ago have started yielding results not only in terms of providing competitive advantage, but also in terms of protecting profit margins by reducing costs, improving business cycles, automating the business processes and most vitally, creating customer delight, says Rajesh Uppal, General Manager (IT division), Maruti Udyog.

Though several manufacturing firms streamlined the processes within the factory premises yet they were unable to control the operations of outside agencies like raw material vendors, distributors, retailers or even customers. The SCM, however, efficiently manages the process right from the origin of raw material till the finished product reaches the end-user.

It facilitates effective coordination of all related factors like man, material, money and information, and efficiently links all those involved in the process. Thus with the proper implementation of SCM-based software tools and packages, companies can plan production and distribution schedules more precisely. This helps in controlling inventories and in turn costs involved in managing those inventories.

With proper implementation, SCM can help in getting deliveries of raw material or finished product, just when they are required. Similarly, in case of export orders or manufacturing plant being situated at far off countries, SCM tool can enable a customer to feed his requirement on the computer. The same gets transmitted simultaneously to the supplier as well their raw material vendors for that product.

This not only saves considerable time and efforts but also saves a lot of money. Firms are able to respond quickly to market requirements and adept to changes. As all concerned parties are interconnected, there is flexibility in commercial transactions and considerable reduction in the response time. SCM thus eliminates the lead-time in inter or intra-department communication.

Supply chain can be described as a closely linked network of customers, distributors, manufacturers and their vendors. SCM involves management of information flow, material, product and finances among the members of supply chain. Timely information about customer's expected orders can help in estimating production schedules and availability of raw material.

Also, any change in the requirement or schedule can be immediately corrected and adjustment made, thereby saving unnecessary costs. Supply chain relates to functions like material planning and procurement, production, warehousing and transportation. Transportation can be from vendor to manufacturer's end, from manufacturer to retailer and from retailer to end-user's premises. The SCM also ensures that the product is available to customer according to his requirement in terms of quantity and time.

Several IT companies, realizing the importance of this management concept, have come out with application specific software on the SCM. These packages simulate the model on material movement at different stages — from raw material, work in progress, packaging, transportation, warehousing and distribution till the finished product reaches the end customer. The time taken at different stages and feedback from various links of the chain is also taken into account.

This helps the management to a great extent in deciding the pricing or distribution policy of their product, even before it is launched in the market. The SCM mainly focus on satisfying customer needs by offering better delivery and price, responding to his needs, quickly and flexibly. Demand forecasts can be made more accurately and transparently once the SCM is applied at all levels of the supply chain.

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KVIC's Role in Rural Development through Non-farm Sector Employment

Vilasini G. Patkar

"Khadi is the symbol of unity of Indian humanity, of its economic freedom and equality"
- Mahatma Gandhi

Introduction

The Khadi and Village Industries Commission is a premier institution in India designed to play a vital role in the development of the rural economy. The importance and need for the development of Khadi and Village Industries was rightly visualized by Mahatma Gandhi eight decades ago. The Khadi and Village Industries have tremendous potential for employment generation and income, thereby facilitating alleviation of poverty in the rural and backward areas. Although the institution is being nurtured by the Central Government since the Second Five-Year Plan period (1956-61), importance has been attached to it, especially after our economy was opened to the forces of liberalization.[1] The Government was apprehensive of an increase in the incidence of unemployment as an immediate result of globalisation. So emphasis was laid on strengthening the rural non-farm sector through KVIC initiatives by creating more employment potential in the rural areas. Government aims at making KVIC's organized interventions as the most dependable instrument of generating employment and income for the rural poor.[2]

This paper focuses on how effectively and to what extent the KVIC has been able to achieve its objectives, especially around the core issue of employment generation in rural areas. It briefly defines the concepts of Rural Area and Rural Development; the objectives of KVIC; discusses the Rural Employment Generation Programme; gives an assessment of the performance – an estimate on size, structure and its role in terms of employment generation; issues and inefficiencies; a few milestones and initiatives in the changing global scenario and the conclusion of the study.

India has been continuously grappling with twin problems of rural poverty and rural unemployment. This is evident from the following facts:

- Vast rural economy constituting of 5.81 lakh villages sheltering 74.3% of our population.
- Majority of the rural population depends on agriculture as their main occupation.
- Due to over pressure on land, continuous sub-division and fragmentation of land holdings, there is steady decrease in the number of agricultural labourers and income from agriculture.
- The Gandhian philosophy of Gram Swaraj holds great relevance even in the present circumstances.
- Government measures of democratic decentralization, with balanced regional development, through planning strategies have not generated expected results.
- Economic development has been without a human face and triggered problems of distributive justice.

Hence, the only hope for rural development is through the promotion and development of khadi and village industries. Therefore the title of this paper is "KVIC's role in rural development through non-farm sector employment".

The Concept of Rural Area

Any area classified as village as per the revenue records of the state irrespective of population.

It also includes an area even if classified as town, provided its population does not exceed 20,000 or

1 *Ray Sunil,"Vicious Circle of Improvisation Woollen Khadi Institutions of Rajasthan", EPW, 4th April 1998, p.788*

2 *Ibid*

such other figure as the central government may specify from time to time. [3]

Rural is defined by the Census of India as- that area which is not urban.

In literal terms, rural means rustic, homely, unpolished countrymen or villagers who are unaware of development in the outside world.

Rural refers to the underdeveloped areas of states which are not either cities or districts or town places. Rural is differentiated from the urban in terms of geographical, physical location (interior neglected areas), less number of households who are closely knit individuals and families, who follow traditional life styles/practices, who are religious and ethical in their outlook and are fairly happy with limited resources and consumption because they believe in simple living. The rural areas are characterized by - scattered and small population, agriculture as the principal economic activity, inadequacy of basic amenities such as pure drinking water, electricity, all-weather roads, health and medical facilities, education and are governed by Panchyati Raj Institutions. Thus, a local community which has a Gram Panchayat could be regarded as 'Rural'.

The Concept of Rural Development

Development, as a concept, when applied in the specific context of rural India, connotes a new meaning to rural development. Fundamentally, development of rural area means not only the aggregate development of the area but also development of people living in rural areas. The objectives of development include sustained increase in per capita output and incomes, expansion of productive employment and greater equity in the distribution of the benefits of growth. Rural development over the years has emerged as a strategy designed to improve the economic, social and cultural life of a specific group of people living in rural areas. The objectives of rural development are multi-directional as well as multi-dimensional. It aims at increased employment, higher productivity, higher income as well as minimum acceptable levels of food, clothing shelter, education, health and building up of a sound value system, which is in keeping with the high cultural heritage of the country. Thus, rural development means all aspects of human development in rural areas..

The development concept, in the context of rural development can be interpreted in three different ways. According to some economists the term 'development' implies development of agriculture – because agriculture and allied activities are the principal occupation of rural people. Hence development of agriculture would mean rural development. Some economists equate rural development with economic development i.e. increase in national and per capita income of rural community by improving industrialization and creating employment opportunities. A more comprehensive perception of rural development is all round development of the rural community, which will include development of agriculture, economic development; along with the provision of minimum needs, poverty alleviation and eradication of unemployment. Therefore rural development means total development of rural community.

In modern times, we could define rural development as a process of developing and utilizing natural and human resources, technologies, infrastructural facilities, institutions and organisations, government policies and programs to encourage and speed up economic growth in rural areas, to provide jobs, and to improve the quality of rural life towards self sustenance. In addition to economic growth, this process typically involves changes in popular attitudes and outlook and in many cases changes even in customs and belief.

Rural development in the ultimate analysis involves the provision of opportunities for the optimum utilization of the human resources in the rural areas. Human resource development in its turn can take place only on the foundation of adequate nutrition and income opportunities. It is therefore necessary to base rural development programs with the primary aim of providing opportunities for the human population to achieve optimum expression of their physical and mental potential, through adequate employment opportunities in the non-farm sector.

Therefore, KVIC was visualized and designed as rural development institution to improve the economic and social life of specific group of people – the rural poor.

3 *KVIC Act and Rules (as amended upto 20th July, 1989) Section 2*

Cumulative Progress of KVIC

KVIC which was established by an Act of parliament on 25th September, 1956 with a band of dedicated NGOs has grown into a vast sector of around 5000 institutions and 1.8 lakh entrepreneurs. It employs more than 7 million people spread over three lakh villages in the country. It operates through its state implementing agencies viz., 30 KVI Boards and thousands of institutions and cooperative societies. It has a network of 7050 exclusive sales outlets all over India. It generates 18.92% of earnings which amply speaks of economically viable projects under the umbrella of KVIC – basically due to the qualitative entrepreneurship development programme through REGP.

Objectives of KVIC

The main objective of KVIC is creating gainful employment in the rural areas by developing various village and cottage industries.

The objectives focus on some salient features like:

- Labour intensive techniques
- Low capital investment and zero gestation period
- Use of locally available raw material and skills
- Simple tools and machines.

The broad objectives that the KVIC has set before it are:

- The social objectives of providing employment
- The economic objectives of producing saleable articles
- The wider objective of creating self-reliance amongst the people and building up of a strong rural community spirit.

Relevance of Non-Farm Sector Employment Generation

The need for non farm sector employment generation was felt more gravely particularly after globalisation in 1991 – as government of India was apprehensive of an increase in the incidence of unemployment as an immediate result of globalisation.

The 55th round of National Sample Survey (NSS) held in 1999-2000 indicated a dramatic decline in the rate of employment generation. It decreased from 2.7% per year in 1983-1994 to 1.07% per year in 1994-2000. The decline was much sharper in rural areas from 2.4% to 0.67% over the same period.

Therefore it was found that the economy generated on an average at least 1 million jobless people annually, adding to the existing unemployed workforce of about 30 million. The official data indicates that in the last 15 years there has been a total collapse of employment generation – organized sector employment generation has been negative, since 1998; but after 2002 it was close to 2% decline. The fall was more pronounced in agricultural sector. So emphasis was laid on strengthening of rural non-farm sector through KVIC initiatives of organized interventions for generating employment and income for rural people. Therefore, the analysis of how effectively and to what extent KVIC has been able to achieve its objective especially around the core issue of employment generation in the rural areas.

Rural Employment Generation Programme

The Rural Employment Generation Programme (REGP) was launched by KVIC at the instance of the government of India to "accelerate the rural employment opportunities by undertaking viable village Industries Projects in the rural areas". The REGP scheme was initiated in the year 1995-96, when the country experienced a great increase in the rate of unemployment due to the impact of Globalisation. The REGP scheme, also known as the Gramodyog Rojgar Yojana, aims at providing ample new employment avenues in the non-farm sector to the rural unemployed people.

The broad objectives of REGP scheme are:

- To generate employment in rural areas.
- To develop entrepreneurial skill among the rural unemployed youth.
- To achieve the growth of rural industrialization.
- To mobilize bank finance for supplementing the limited resources of KVIC.

The beauty and uniqueness of the REGP scheme is on account of:

- Productive employment generation.

- Use of local resources – human and physical.
- Employment at door-steps of village communities.
- Minimum investment.
- Availability of bank finance and margin money.
- No qualifications needed to start a village industry unit.
- No discrimination on the grounds of caste or sex.

Zone	Total
North Zone	47202
East Zone	41874
N. East Zone	29133
South Zone	48374
West Zone	26738
Central Zone	72506
Grand Total	**265827**

Table 1: REGP: Zone wise Employment from April 2004 to March 2005 (15-03-2005)

Source: KVIC Publication-Jagruti, April 2005 Vol 49, No. 5

Through REGP alone, KVIC could generate employment opportunities to 2,65,827 people in the rural- non farm sector. This is a commendable achievement for KVIC. The REGP gave a new thrust, by sanctioning financial support to the extent of 25-30% component as Margin Money through KVIC. It also helped in channelling the financial inputs through wide spread banking network. This has made the scheme extremely popular and has reached a takeoff stage both in terms of creation of employment opportunities and resource mobilization. During the year 2003-04, KVIC funded 24,747 new projects as against 21,024 projects in the year 2002-03, due to which it was able to generate an additional employment to the tune of 4.71 lakhs in the year 2003-04 as compared to 3.61 lakhs in 2002-03. The performance of REGP projects has grown by 11.22%, employment has increased by 30%, sales by 41% and production by 11% compared to the previous year 2002-2003.

Zones	**No. of projects sanctioned**	**Margin Money Utilized (Rs. in Lakhs)**	**Production (Rs. in Lakhs)**	**Sales (Rs. in Lakhs)**	**Employment (Persons in Nos)**	**Earnings (Rs. in Lakhs)**
North	5505	6791.38	28349.66	44568..42	11861	19160.11
East	4848	2790.17	11284.43	18310.49	49071	8056.62
North-East	1952	1552.57	5170.56	10188.74	29227	4483.05
South	6189	7501.69	30553.63	49229.84	136619	21661.13
West	1275	1090.70	4180.26	7157.72	19510	3149.40
Central	4978	6847.95	30337.40	44939.68	118170	19773.44
Grand Total	24747	26574.46	109875.94	174394.89	471458	76733.75

Table 2: Overall Performance of REGP at a Glance
Source: KVIC Annual Report 2003-2004

The performance indicators of the REGP scheme revel that, the scheme has picked up good momentum in the Southern and Northern Zones. It is showing a fairly good progress in the Eastern and Central Zones. However, it has not made a remarkable impact on the North-East Zone and the West Zone. Our state of Maharashtra falls in the West Zone along with Goa and Gujarat. Having realized this dismal picture of its performance in the West and North east Zone, KVIC has taken up some publicity campaigns and awareness programs to educate people about their schemes and projects.

Zones	No. of Awareness Camps	No. of Workshops	No. of Exhibition	No. of Bankers Meetings	Persons trained under EDP
North	37	21	15	12	12
East	80	38	12	12	12
North-East	143	35	18	20	20
South	29	25	23	14	14
West	64	38	4	4	4
Central	41	22	16	15	15
Total	394	179	88	77	13185

Table 3: Zone wise Performance of REGP Report on Linkages Source: KVIC Annual Report 2003-04

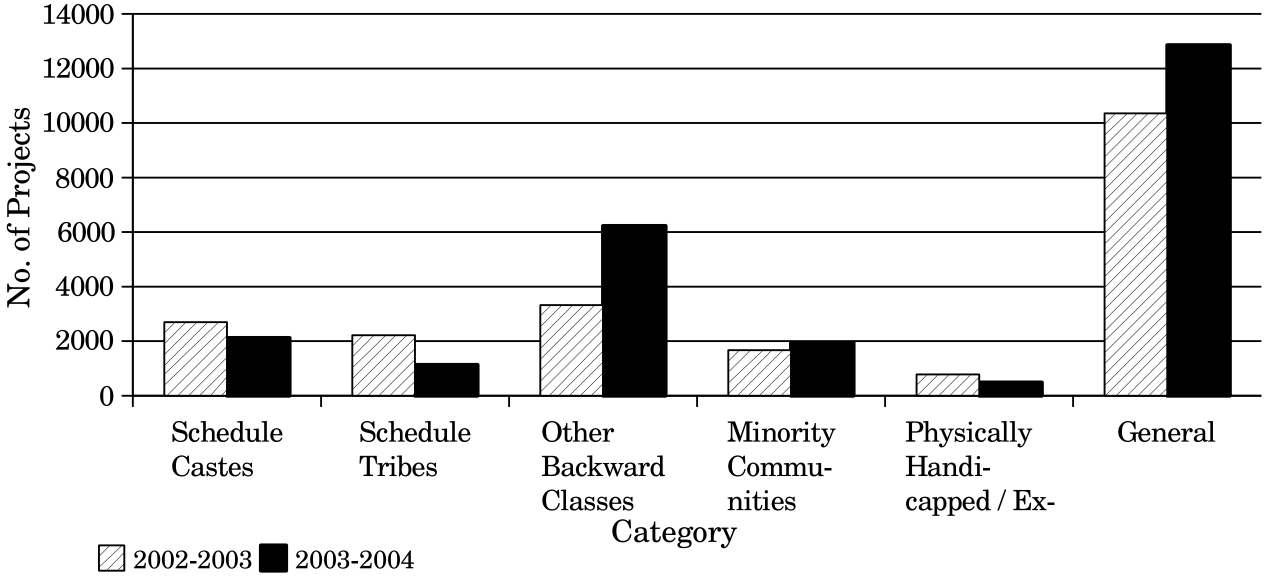
Several measures have been taken to promote REGP, such as – organizing Exhibitions, conducting Entrepreneur Development Program Training, Workshops, Awareness Camps, Bankers Meetings, etc. to establish forward and backward linkages; for which Rs.4.78 crores was disbursed. This measure has tremendously contributed to the physical performance of REGP.

Category	No. of Projects	
	2002-2003	**2003-2004**
Schedule Castes	2696	2123
Schedule Tribes	2216	1130
Other Backward Classes	3324	6227
Minority Community	1665	1942
Physically handicapped/Ex-Servicemen	774	486
General	10349	12857
Total	**21024**	**24747**

Table 4: Category wise projects set up during 2003-2004

The REGP also focused attention on larger coverage of SC/ST/Women and other weaker section entrepreneurs of the rural community while sanctioning projects which accounted for a fair share of 48%; of which projects for women entrepreneurs comprised 23%.

Category-wise Project Setup



During 2003-04, production under the program from new units has been Rs.1098.76 crores, while it was Rs.987.93 in the previous year 2002-03, i.e. it has registered an 11% increase. Similarly, sales were Rs.1743.95 crores for 2003-04 compared to Rs.1234.92 crores for 2002-03, which is 41% more. Employment also increased by 30% over the previous year.

This progress has made KVIC the largest employment generating institution in the Rural Non-Farm Sector.

Assessment of the Performance

The statistical data of performance reveals that KVI sector has registered an all around growth in 2003-04. All parameters of performance show a positive growth with production increasing at 12.98%; sales at 13.56%; Employment at 7.13% and Earnings at 18.92%.

The earning rate of 18.92% speaks of the economic viable operations of KVIC projects. It also implies that the Training imparted by KVIC through the Entrepreneurship Development Program is also qualitative and result oriented.

		2002-03	2003-04	Percentage Increase
A	Performance Parameter: **Production** (Rs. In crores)			
	Khadi	443.07	453.50	2.35
	Village Ind.	8126.30	9228.27	13.56
	K and VI	8569.37	9681.77	12.98
B	Performance Parameter: **Sales** (Rs. In crores)			
	Khadi	577.63	587.04	1.62
	Village Ind.	9815.71	10988.17	14.27
	K and VI	10193.34	11575.21	13.56
C	Performance Parameter: **Employment** (lakhs persons)			
	Khadi	8.58	8.61	0.34
	Village Ind.	57.87	62.58	8.13
	K and VI	66.45	71.19	7.13
D	Performance Parameter: **Earnings** (Rs. In crores)			
	Khadi	229.64	253.81	10.52
	Village Ind.	3075.43	3676.76	19.55
	K and VI	3305.07	3930.57	18.92

Table 5: A Broad Outline of Performance of Khadi and Village Industries
Source: KVIC Annual Report 2003-2004

This significant growth was possible due to the broadened horizon of KVI activities after mid- 90's. The dimensions of KVI activities were widened by encompassing under its scope any production as well as service activities in rural areas as Village Industries.

Issues and Inadequacies

There are various hurdles, issues and inadequacies in the progress of rural development through employment generation in the non-farm sector. The crucial amongst them being:

- Adequate and timely availability of various resources, viz. qualitative raw material, skilled and unskilled labour, hassle free financial support, etc.
- Lack of knowledge amongst the rural communities about schemes and opportunities made available by KVIC, government and NGOs for generating employment avenues especially for them.
- Dis-interest and reluctance on the part of our rural lot to venture into any new activity other than agriculture.
- Lack of inclination to participate in entrepreneurship training programmes.
- Absence of insight as regards the significance of product development, packaging, designing and quality consciousness, along with the overall lack of marketing initiative or strategy. Marketing of rural industry products poses the greatest hurdle.
- Deficiency in respect of a vision of prosperity, growth, development and an aspiration for a better standard of living.

On account of these various reasons its becomes very difficult to convince the village community to take up challenging entrepreneurship activities which would generate self employment avenues as well as open up new employment opportunities in the rural country side. Thus, the tremendous rural industry potential remains under-utilized, the artisans are unemployed their skills get deteriorated and their earnings are low. They continue to excessively depend on agriculture as the main occupation and live under conditions of poverty. In the light of these issues and problems KVIC needs to focus its attention and undertake a quick action plan for accelerating the process of rural development.

To tackle these challenges, the KVIC has rightly set for itself some new initiatives and milestones to achieve success in its mission of rural development through employment generation in the non-farm sector.

New Initiatives and Milestones

In spite of its record success on employment, earnings, sales and production front, KVIC has not become complacent. It is undertaking a number of new initiatives and programmes which can highlight its march towards its mission 2020.[4]

- Creating a powerful network of 100 million people engaged in rural industries along with the direct engagement of 10 million people in the KVI network.
- It is targeting a turnover of Rs.1,00,000 crores before 2020.
- To emerge with the best range of eco-friendly products amongst top global players.
- A dedicated bank for the KVI sector, managed by and for the stakeholders of the network.
- To emerge as a self-sustaining body generating models for sectoral growth and pay back the equity.

To achieve this ambitious vision, it has embarked upon a number of new initiatives viz.

- Marketing focus through Brand Promotion (Khadi, Sarvodaya, Desi Aahar) and Renovation and Modernization of sales Outlets, Exhibitions, fairs, advertisements, awareness campaigns etc
- Design Development and Quality Consciousness (Testing of quality standards, ISO 9000 standards at Central Silver Plants, development to ensure higher productivity, better quality, cost competitiveness, product diversification, quality assurance system etc.)
- Khadi Artisan Welfare Measures – Insurance Schemes for Khadi Workers, Artisan Welfare trusts, replacement of old charkhas etc.
- Emerging areas – Bio-tech products like bio-fertilizers, bio-pesticides as well as herbal products and organic food products.
- Greater thrust on the Rural Employment Generation programme (REGP).
- New schemes are launched like Rural Industrial Consultancy Service (RICS); Product; Development Design Intervention and Packaging Scheme (PRODIP); Rural Industries Services Centre (RISC); Entrepreneur Development Programme (EDP); Entrepreneur Awareness Programme (EAP); Confederation For Promotion Of Khadi and Village Industries (CPKVI); Marketing Facilitation Centre (MFC), etc.

Conclusion

In the light of all these measures undertaken by KVIC, there is no doubt that the KVIC has a very bright future. It would ever remain the most powerful organisation responsible for generating employment opportunities in the rural non-farm sector, thereby contributing to the rural development of our country. It would definitely help in bringing about a reverse migration i.e. people would move from cities to villages, on account of varied opportunities of business and trading avenues, thereby making our villages prosperous with business and employment potential and this in turn would help in bridging the rural-urban divide in the years to come. KVIC indeed has a great role to play in rural development through employment generation in the non-farm sector.

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4 *Arya Ved Prakesh, "KVIC: A Rural Industrial Giant", Outlook, 23rd August 2004, p.55*

Rural Marketing – Synopsis of Visit

*Prakash Narayanan**

Visit to Kashale, Karjat

Students of MMS, PGDBM, Prof. Verma, Prof. Chitnis, Mr. Tushar – Assistant Librarian visited the cottage industry at Kashale, Taluka Karjat, Distt. Raigarh, in order to get exposure to various aspects of Rural Marketing on 21st April, 2006. Thanks to Prof. Chitnis and Prof. S.S Dongare for arranged the visit.

The visit gave a good exposure to all the students as to how rural people work and earn their livelihood.Students were apprised of the following activities at Kashale, Karjat

Rice Mandi :

- The farmers come with their produce in the market, which functions only for 3 months from October to December.
- The produce brought by the farmers is auctioned at the market yard.
- There is also a facility for storing the produce at the Central Warehouse godown.
- The storing charges are very nominal at Rs 2.50 for 70kg for a period of one month.

Rice mill:

For the benefit of farmers , there is also a rice mill where paddy is polished and rice grain is separated from the paddy.

Cane Furniture:

It is a small scale cooperative, managed by the farmers during off season. We met one of the members Mr M. S. Mathpati, Chairman of the cooperative. The produce is sold in the city at reasonable prices.

Bamboo Resource Centre:

It is situated at the Academy campus, Kashale, Karjat. Here all fancy items are made out of bamboo. The items produced are Mobile stand, plates, small and big storage bins, ladies purse, bags and a host of other items.

Teak Wood Furniture:

This is one more unit which fabricates furnitures for home use. The wood used for this purpose is procured from local forest.

Food products and medicated oil processing unit:

This place has got one Academy of Development Science (ADS). Here, we saw various products made from fruits like amla and mango. We gathered that ADS is making special efforts to popularize the use of Millets. Millets is a collective term for the grain of a large number of small seeded grasses that are grown as cereal crops.

We also observed the ready to mix health drink powder made out of cereals viz. nachni, rice, wheat etc. These provide a wholesome nutrition for the young and adult alike.

Products with brand name Tungi Natural Foods are produced at ADS

Mango Pickle	**Mango Chunda**
Mango Squash	Mango Panha (Raw Mango)
Amla Pickle	Amla Chunda
Amla Candy	Amla Murabba
Karvanda Pickle	Karvanda squash
Ragi Satva	Ragi Malt

We also came across the processing of medicated oil, which is heated continuously for 48 hours and then herbs are added to it. The oil is said to be very good for arthritis.

As a whole, all of us found this visit very interesting. It gave us a lot of valuable insight into various activities of rural people.

♦♦♦

* *Dr.V.N. BRIMS Student, MMS I, 2005-06*

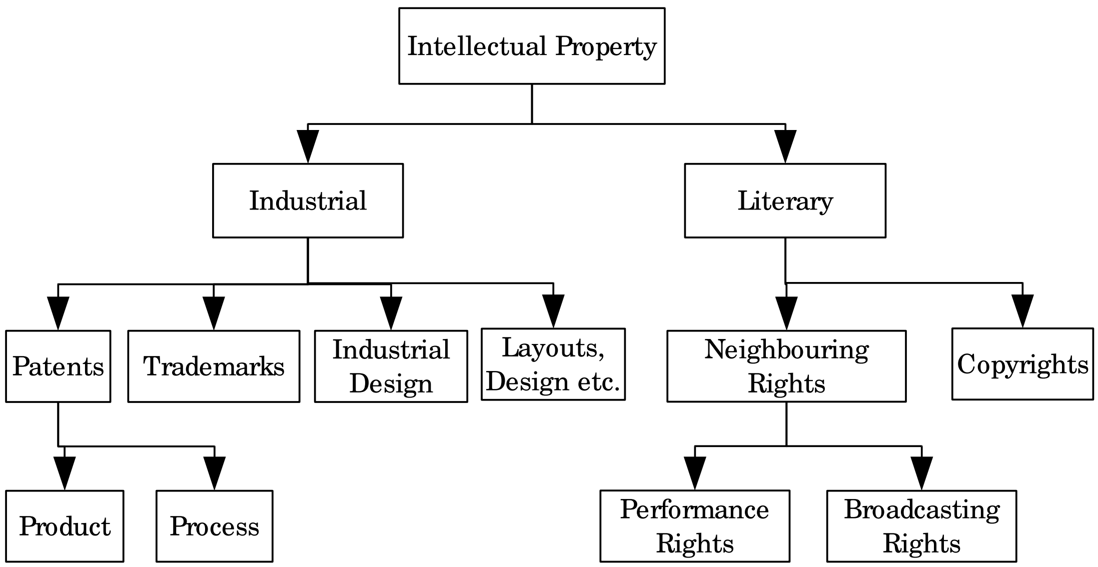
Role of Internet in Intellectual Property Rights

Sandeep Bhavsar

Introduction

The following chart clearly explains the traditional classification of Intellectual Property.

From the time immemorial, man has a desire to 'own' something. Whatever he achieves with his physical or mental efforts, he wishes to become its 'Owner'. The outcome of his hard work and his achievement can be his property.



Definition

WIPO Defines Intellectual Property Rights (IPR) as:

"Literary, artistic and scientific works, performances of performing artists, phonograms and broadcasts, inventions in all fields of human endeavour, scientific discoveries, industrial designs, trademarks, service marks, and commercial names and designations; protection against unfair competition and all other rights resulting from intellectual activity in the industrial, scientific literary and artistic fields."
(Convention establishing World Intellectual Property Organisation signed at Stockholm on July 14 1967.)

Importance of IPR

It is essential that in the interest of the individual, country and society at large scientific inventions, new technologies and creative achievements be protected so that the respective innovators, designers and other professionals can gain rewards, which they deserve. There has been a growing realization that with a rapid progress of information technology, evolution of global media and communication revolution, there has been phenomenal increase in copying, counterfeiting and similar other malpractices and owners of intellectual property are severely affected by such piracies. Patent and Copyright laws differ widely between nations, which affect trade and investment flow between nations and also give rise to trade and industrial disputes. The various national and international efforts in this direction could not do much to alleviate the problem. The Uruguay around of GATT negotiations which concluded in December, 1993 after considerable thought and deliberations has attempted to evolve a consensus on Trade Related Intellectual Property Rights (TRIPS) which has been adopted by World Trade Organisation.

As per TRIPs (Trade Related Intellectual Property Rights) the types of Intellectual Property Rights (IPRs) are (i) Patents, (ii) Copyrights and related rights, (iii) Geographical indications, (iv) Industrial designs, (v) Trademarks, (vi) Layout designs of integrated circuits, and (vii) Trade secrets (undisclosed information) Further, amongst the different types of TRIPs the legal dimensions concerning the patent particularly and geographical indications to some extent involve the whole lot of discussion.

The social purpose is to provide for the results of investment in the development of new technology, thus giving the incentive and means to finance research and development activities.

IPR in India : Recent Developments

Recent developments in IPR are beneficial to the Indian science and technology community as these would provide them the long-awaited support for converting science and technology.

Patent Facilitating Cell

The Patent Facilitating Cell (PFC), set up by the Department of Science and Technology (DST), Government of India, has the following objectives :

- To introduce patent information as a vital input in the process of promotion of R and D Programmes :
- To provide patenting facilities to scientists and technologist in the country for Indian and foreign patents on a sustained basis
- To keep a watch on developments in the area of IPR and make important issues known to policy makers, scientists, industry, etc.; and
- To create awareness and understanding about patents and the challenges and opportunities in this area through workshops, seminars and conferences (7).

The services offered by PFC include :

- On-line patent search on Indian patents (bibliographic only)
- Database search on patent applications filed in India since 1995.
- CD-ROM based patent search for European and US patents.
- On-line patents search on Internet by using international database.
- Mechanism for obtaining text of patent documents and patent searching elsewhere.
- Conducting patent awareness workshops.
- Attending queries from readers and others.
- Facilities for patenting of intentions carried out at universities, RandD institutions.
- Bulletin on IPR

PFC has been planning to set up patent information centres across the country. It set up the first Information Centre at the West Bengal State Council of Science and Technology at Calcutta in September 1997.

Role of Internet in IP Rights

The Internet has emerged as an industrial revolution of sorts, on both the technological and policy making front simultaneously. Paradoxically, the Internet was created as a communication tool for government and industry, in response to policy, but has emerged as a global medium which now drives global economic development and policy making. On the one hand, the Internet has spawned new and emerging, industries related to conducting business on an international scale, having extended the reach and depth of technology and business data acquisition. Yet, on the other hand, it has created opportunities and counter-balancing liabilities related to the disciplines of intellectual property development, enforcement and commercialization.

The Internet is a powerful tool that has already demonstrated its ability to create new jobs, advance technology, shorten product life cycles, circumvent international communications barriers, and transcend political and social chasms. Yet the same time, it has become a tool that has caused the devaluation of some intellectual property almost as much as it has created new value for others.. It has caused confusion amongst leading policy makers, and while it has created new business opportunities, it is itself threatening to become an impediment to future economic expansion. Without proper management, the Internet can become ‘worthless to Intellectual property community.

Beneficial Impacts of the Internet on IP

The Internet has driven many changes in the intellectual property community. As a data and resource access tool, it has expanded the reach of every user from localized, regional resources, to true global information access. Correspondingly, the

Internet has been the genesis of many new support industries. Due to its low cost of access, it has allowed inventors, companies and governments that were not otherwise able to compete with big-budget enterprises, to leapfrog traditional growth curves, thereby affording an opportunity to implement leading-edge information gathering, IP analysis and Intellectual Asset Management (IAM) tools.

The short list of the benefits that the Internet has substantially or single-handedly brought to the intellectual property community is impressive.

- It has increased affordable access to intellectual property resources, globally;
- It has challenged the world to increase standards of 'Patent Quality.' The ability to find invalidating prior art via the Internet retroactively calls into focus the quality or validity of previously issued patents.
- It has increased business, political and society awareness of the growing importance of all types of intellectual property;
- It has shortened data access time that is, days or weeks have been shortened to minutes or hours;
- There has been a geometric increase in the amount of accessible data and collection relative to intellectual property;
- It has provided access to an expanding number of web-based software and intellectual property management tools;
- It has reduced reliance on third-party data providers (by reducing cost, increasing access speed);
- It has provided a path for developing countries to catch up with world developments with regard to intellectual property data access, and management.
- It has increased the ability of the government agencies to deliver resources to a larger number of their citizens;
- It has spawned new industries and technology segments, such as, online intellectual property management tools, monitoring software, technology exchanges, new patent classifications. It has also increased business for legal sector, and accelerated time to market for new products and technologies.

Internet Resources Related to IP

Web site categories for IP Information, web-based tools and databases access may be listed as follows:

a) patent databases (government and commercial);
b) trademarks (government and commercial);
c) non-patent art (government, educational and commercial research);
d) scientific/research;
e) chemical;
f) technology/materials;
g) bio and life sciences;
h) university thesis and research studies;
i) technology disclosure publications;
j) domain registries : (.com, gov, edu, org)
k) information and directory resources, including IP development, law, protection, enforcement, commercialization references, information, services and products;
l) patent resources;
m) trademark sites;
n) copyright sites;
o) management tools;
p) specialized search engines;
q) patent and trademark search tools;
r) technology transfer (university, non profit, exchanges, auctions).

Anticipating Internet Trends to Manage IP

The Internet is a new medium that demands planning, attention and integration. The development may be brought about as follows :

a) The corporate community must embrace the Internet as a means to compete in a global market place, and must develop an awareness of the potential benefits and it's impact on a global basis regardless of its regional strategy, operations and decisions. The increased commercial and IP protection opportunities must be balanced with an inadvertent increase in exposure to infringement claims, increased requirements and costs to assert IP ownership globally, and the higher standard of practice in prior art citation, and prior art clearance.

b) It is incumbent upon every growing company to develop an economic and business strategy associated with patents, trademarks and branding, copyrights, and defensive and offensive intellectual property. Typically, this calls for the creation of an intellectual property manager or specialist whose job it is to become educated with regard to the fast moving landscape of IP on the Internet.

c) As far as the government and policy makers are concerned, they should plan on continually increasing the number of patent and trademark applications, and understand the financial and operational impact of accelerating intellectual property activity.

d) Without implementing the next generation Information Technology (IT) Infrastructure, in a few short years most patent offices will be faced with an almost impossible task of managing an out-of-control traditional paper based system.

e) Without implementing a three-five year budget plan to develop automated Intellectual property database, search, analysis and work flow management systems, patent offices will be unable to catch up the demands without an extraordinary allocation of personnel and money.

Information Technology requires a strong IPR protection system for many reasons and some of the important ones are as given below :

- It changes rapidly.
- Product life cycle is becoming shorter
- Investments on R and D, production, marketing are very high.
- It is a multidisciplinary area requiring a high level of skills
- It is unaffected by geographical boundaries
- It is a great equaliser and unifying factor for human society
- It is now highly software driven, and
- The industry is very competitive.
- Therefore, one expects a large number of patents being granted in the IT sector all over the world, including India.

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New directions in Jurisprudence

Time is of essence in every field including judiciary. Very recently Madurai bench of Madras High Court has fined a petitioner an amount of Rs. 2500 for 'wasting time'. The petitioner, according to judge was “abusing the process of law and wasting court time to settle business rivalry”. Further the judge said “the court had to infuse in him a sense of responsibility by warning him to desist from filing such vexatious petitions”. A great judgement and a message to the entire judiciary all over the country.

Source: Mumbai mirror, 15th April 2006

Jurisprudence Governing Business Decision Jessica Lal and L' Affaire Quattorochi

Nadirshaw K. Dhondy

No matter how high you are: you are not above the law. This statement of Jurisprudence is fraught with serious implications. Simply stated it means that if you have done a wrong you are accountable for it. It does not matter how high you are socially or politically or what is your financial might.

Unfortunately the time to implement this Jurisprudential principle has not yet seemed to come to India. The most current example is of Jessica Lal's murder case. The innocent was murdered and the accused was proved innocent. What a travesty of Justice.

The National newspapers in headlines screamed: NO ONE KILLED JESSICA LAL.

Obviously the weight of the accuser's business and police connections influenced men, they materially changed the evidence. There was more than mere motivation for the law enforcers to fudge records. A matter currently under serious judicial and police investigation.

Did this sorry state of things come to happen suddenly? The answer is an emphatic No. The rot had already started with Borfors case.

The disclosure made by a news channel that the Government of India through the Law Ministry, and in particular, through Shri B. Datta, Additional Solicitor General of India, has officially requested the Government in Great Britain in the month of December, 2005 to de-freeze the bank accounts of Mr. Otavio Quottrochi is positively shocking.

Who is Otavio Quottrochi? The close proximity of Mr. Quottrochi (an Italian citizen) with the Gandhi family is well known. He had shifted to India soon after the marriage of Rajiv Gandhi with Sonia Gandhi and had become the principal representative of an Italian company Snam Progeti in India for several years. His close connections with the Gandhi family were never in doubt. His political clout helped his company immensely.

When the Swiss authorities formally communicated to the Government of India that the kick-backs in the Bofors case were deposited in Mr. Quottorochi's accounts, the Congress Government then headed by Shri P.V. Narasimha Rao was asked by prominent members to immediately impound Quottochi's passport to prevent him from fleeing the country. This was not done and he was allowed to leave the country. Since then the CBI has been involved in a legal battle to extradite him from Malaysia where he found his new home. The case against him both for extradition and for receipt of kick-backs in the Bofors case is still pending. It is for the CBI and appropriate judicial authorities to take a view in the matter. Even the CBI without permission of the Court cannot close the case. Notwithstanding this legal position, for a Law Officer of the Government of India to request the authorities in Britain to de-freeze his accounts is scandalous. It is an attempt to use unconstitutional means to help a person who has caused wrongful loss to the Government of India.

Even though disclosures were made in April 1987 by a Swedish Radio broadcast, that kick-backs had been paid in the case, no FIR was registered as required by law to freeze the accounts and no action was taken to seek legal assistance from Swiss government

- Non-registration of FIR when the facts of the case came to light.
- No request being made to the Swiss authorities for legal assistance and for freezing of accounts.
- In December,1990 the then Law officer of the Govt. of India headed by Shri Chandrashekhar (which was supported by Congress Party), namely, Shri KTS Tulsi, made a statement that the facts of the case did not disclose an offence and therefore should be quashed. The Court cast every doubt of the case, which was set aside by the Supreme Court.

- The High Court subsequently quashed the charge sheet in a judgement delivered by Justice G.C. Mittal and Justice Sat Pal which was later set aside by the Supreme Court.

Forbidden fruits create many jams.

- In 1992 Shri Madhavsinh Solanki, the then External Affairs Minister handed over a memorandum to the appropriate Swiss authorities requesting them not to render assistance to Indian authorities. This was exposed by a journalistic investigation and Shri Solanki had to be sacked from the Government.
- After the charge sheets were filed in 1999 and proceedings started, the Delhi High Court delivered an erroneous judgement in the year 2004 holding a case of prevention of corruption was not made out. When the UPA came back to power, it prevented the CBI from filing an appeal in the case and let the erroneous judgement stand. Pursuant to the said judgement some other accused were also discharged. Those orders were allowed to remain unchallenged by the CBI before the court. A public interest petition in this regard to continuing the case is now pending before the Supreme Court.
- Now a formal request is illegally made through a Law Officer of the Government of India to appropriate authorities to even release the illegal funds which were lying frozen in Quottrochi's accounts. Even under the allocation of business rules the law Ministry has nothing to do with this case.

If Quattrochi had a grievance with his freezing of accounts then it is for the C.B.I to tackle it. Unfortunately the political executive of the Government of India is making this request. The C.B.I knew this very well and did nothing about it. Why blame Jessica lal case being fudged? What is the conduct of India's premier law enforcement agency? These are serious questions of Jurisprudence vis-à-vis business and rules of business.

This also raises serious ethical and judicial propriety questions. Is no judicial activism called under these circumstances?

Where does this all lead the common citizen to believe? O Judgement thou are fled to brutish beasts to quote William Shakespeare.

Do we all give up?

The answer is a simple NO. Don't give up: even Moses was a basket case.

*some data borrowed from A. Jaitley's earlier press release.

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"There are wrinkles on my face because of old age. All my hair on my head have turned white and my hand, legs have turned loose and feeble. But my hope is alike a young beautiful damsel. May everything cease and get destroyed but hope and desire never gets emaciated." – Bartrihari's Nitishataka

Juris dicere et non jus dare
(Judges administer the Law and not make it.)

In a case decided by the Supreme Court, Phul Singh v/s State of Haryana, (1980 Cri.L.J 8) a young philanderer aged 22, overpowered by excess sex stress, raped a twenty four year old girl next door in broad daylight. The Sessions Court convicted him to four years rigorous imprisonment, and the High Court confirmed the sentence in appeal. When the matter went in appeal to the Supreme Court, the sentence was reduced to two years rigorous imprisonment, as the accused was not an habitual offender, and had no vicious antecedents. The Supremem Court observed "The incriminating company of lifers and other for long may be counter productive, and in this perspective, we blend deterrence with correction, and reduce the sentence to rigorous imprisonment for two years"

Yet another case which proves the doctrine is a recent case a three judge bench held "irretrievable breaking down of marriage" s ground for divorce. To this point Justice Katju has expressed his strong dissent stating that there was no provision like irretrivable breaking down of marriage as a ground for grant of divorce. He also said it ws not for the courts to lay down the law as it falls within the domain of parliament. He expressed his desire to have some judicial restraint over decision making.

Source: Times of India, News Item "It's not for courts to lay down law" 22 April 2006

Discretion

The expression discretion according to the dictionary means:
a. the quality of being discrete;
b. cautious;
c. reserved in speech
d. ability to make responsible decisions;
e. power of free decisions;
f. latitude of choice within certain legal bounds;
g. individual choice;
h. judgement

Discretion, however, does not mean bare affirmation or negation. It must meet the objective criteria of many attributes used as inputs for decision making viz.
a. common sense
b. equity, justice and good conscience
c. rules based on an established long series of decisions
d. proper application of mind paramount interest of the organisation
e. reasonableness
f. proper direction in law
g. relevant dimensions to be considered
h. focussed, sharp and to the point

Discretion shall not be based on: whim and fancy of decision makers, arbitrariness, capriciousness non-application of mind colourable exercise of authority
discretion exercised shall be recorded so that the basis driving the discretion is transparent and there is accountability placed at the door of the decision maker. The main purpose of fettering the discretion is preventing unfettered, arbitrary or caparicious, vague, fanciful use of authority.

Jurisprudence

Abhijeet Sonawane

Juris dicere et non jus dare: Judges administer the law, and not make it.

According to the declaratory theory of precedents, a Judge never makes law. He merely declares what the existing rule of law is. It is the legislature that lays down the law, and the function of the Judges is merely to interpret the law, and apply it to the facts of the case before them.

If each judge were left to himself in deciding cases without reference to similar cases decided in the past, the result would be utter confusion and chaos, the law would be uncertain, and the fate of litigants would hinge on the temperament of the judge or his mood of the day.

According to Blackstone, judges are "sworn to determine, not according to their own private judgement, but according to the known law and custom of the land, not delegated to pronounce a new law, but to maintain and explain the law and not make the law". That is judges discover the law, they find the law, rather than make the law.

But quite often a Judge is faced with a unique situation which has never arisen in the past in such cases he creates an entirely new principle. Therefore a judge not only administers and interprets the law but he also develops it. It is also held that judicial decisions may make law, but they cannot alter it.

Sir Glanville Williams pointed out in his book, Criminal Law that judges have a large measure of freedom. There may be several possible interpretation of a statue and as regards a precedent a judge will often not be completely bound by it. In criminal cases the courts are anxious to facilitate the conviction of villains and they interpret the law wherever possible to secure this.

The law ought to be precise as possible and the judges should not change it. The classical expression of this opinion was by Bacon, "Judges ought to remember that their office is *lus dicere*, and not *lus dare*; to interpret, and not to make law or give law."

Many times we have provisions containing the words, "shall act in its discretion". The word "discretion" means when it is said that something is to be done within the discretion of the authorities and that something is to be done according to the rules of reason and justice, not according to private opinion. It is not to be arbitrary, vague, and fanciful, but legal and regular. And it must be exercised within the limit to which an honest man competent to the discharge of his office ought to confine himself.

Discretion when applied to a Court of Justice means 'sound discretion guided by law'. It must be governed by rules. When a discretionary power is invested in an authority, the authority would be bound to exercise that power, and the word 'may' conferring discretionary power has to be read as 'must', except in those cases where there are grounds for not exercising such power.

Lord Blackburn has said that as to the exercise of discretionary power by a court of equity, 'the discretion is not to be exercised according to the fancy of whoever is to exercise that jurisdiction of equity, but is a discretion to be exercised according to the rules which have been established by a long series of decisions'.

Judicial Creativity is the means for the court to adapt law to modern society. The use of judicial creativity does not suggest a departure from precedents. Judicial Activism is a part of judicial creativity. The term Judicial Activism is another name for innovative interpretation. It describes how a judge judges, that is how he applies the law to facts in the cases before him. Activist judges make up the law as they go along. They feel free to re-write statues or the Constitution, to use extra- legal factors in their decisions, to ignore limits on their power in the search for desirable results.

According to Former Senator Sam Ervin, A Judicial activist is a judge who interprets the Constitution to mean what it would have said if he instead of the Founding Fathers had written it.

The decision of Supreme Court in *Bela Banerjee case* in which even after the Constitution (Fourth Amendment) Act, 1955 specifically injuncting that no law concerning acquisition of property for public purpose shall be called in question on the ground that the compensation provided by that law is not adequate, the Supreme Court reiterated its earlier view expressed in *Dwarkadas case* to the effect that compensation is a justifiable issue and that what is provided by way of compensation must be "a just equivalent of what the owner has been deprived of".

Golak Nath case is also an example of judicial activism in that Supreme Court for the first time by a majority of 6 against 5, despite the earlier holding that Parliament in exercise of its constituent power can amend any provision of the Constitution, declared that the fundamental rights as enshrined in Part III of the Constitution are immutable and so beyond the reach of the amendatory process. Later *Kesavananda Bharti case* had given a quietus to the controversy as to the immutability of any of the provision of the Constitution. By a majority of seven against six, the Court held that under Article 368 of the Constitution, Parliament has undoubted power to amend any provision in the Constitution but the amendatory power to amend does not extend to alter the basic structure or framework of the Constitution.

Criticism about judicial activism is that in the name of interpreting the provisions of the Constitution and legislative enactments, the judiciary often rewrites them without explicitly stating so and in this process some of the personal opinions of the judges metamorphose into legal principles and constitutional values. One other facet of this line of criticism is that in the name of judicial activism, the theory of separation of powers is overthrown and the judiciary is undermining the authority of the legislature and the executive by encroaching upon the spheres reserved for them.

On the flip side we have *Sunil Batra's Case* (AIR 1978 SC 1675) which is a good example where judges have delivered a far reaching judgement. In this case, a prisoner lodged in the jail wrote a letter to a Judge of the Supreme Court complaining of a brutal assault by a Head Warder on another prisoner, Premchand. That letter was treated as a writ petition, forsaking the prescribed form because what was at stake was the right to "life and liberty" ensured by Article 21 of the Constitution. A three-Judge Bench heard the matter and while issuing various directions, it was opined "technicalities and legal niceties are no impediment to the court entertaining even an informal communication as a proceeding for habeas corpus if the basic facts are found". Also it was held that "the fact that a person is legally in prison does not prevent the use of Habeas Corpus to protect his other inherent rights". Sunil Batra in this case displayed judicial concern for the miserable conditions of the prisoners to such an extent that for the first time in the history of the Court, the Chief Justice of India, M.H. Beg along with Justice Krishna Iyer and Kailasam visited the Tihar Jail on the 23rd January 1978 to ascertain the existing conditions. The Court also permitted the Citizens for Democracy (CFD), a human rights group to formally intervene in the case.

At the end it can only be said that the role of Judge in interpreting law will be described as, "Judges must be sometimes cautious and sometimes bold. Judges must respect both traditions of the past and the convenience of the present. Judges must reconcile liberty and authority, the whole and its parts." Also the Constitution is law of laws and the judges should not go far enough interpreting the provisions of the act that it becomes *ultra vires* the Constitution. Judges should always restrict their role as interpreters and in no way they should exceed the limits so as to cause harm to the society.

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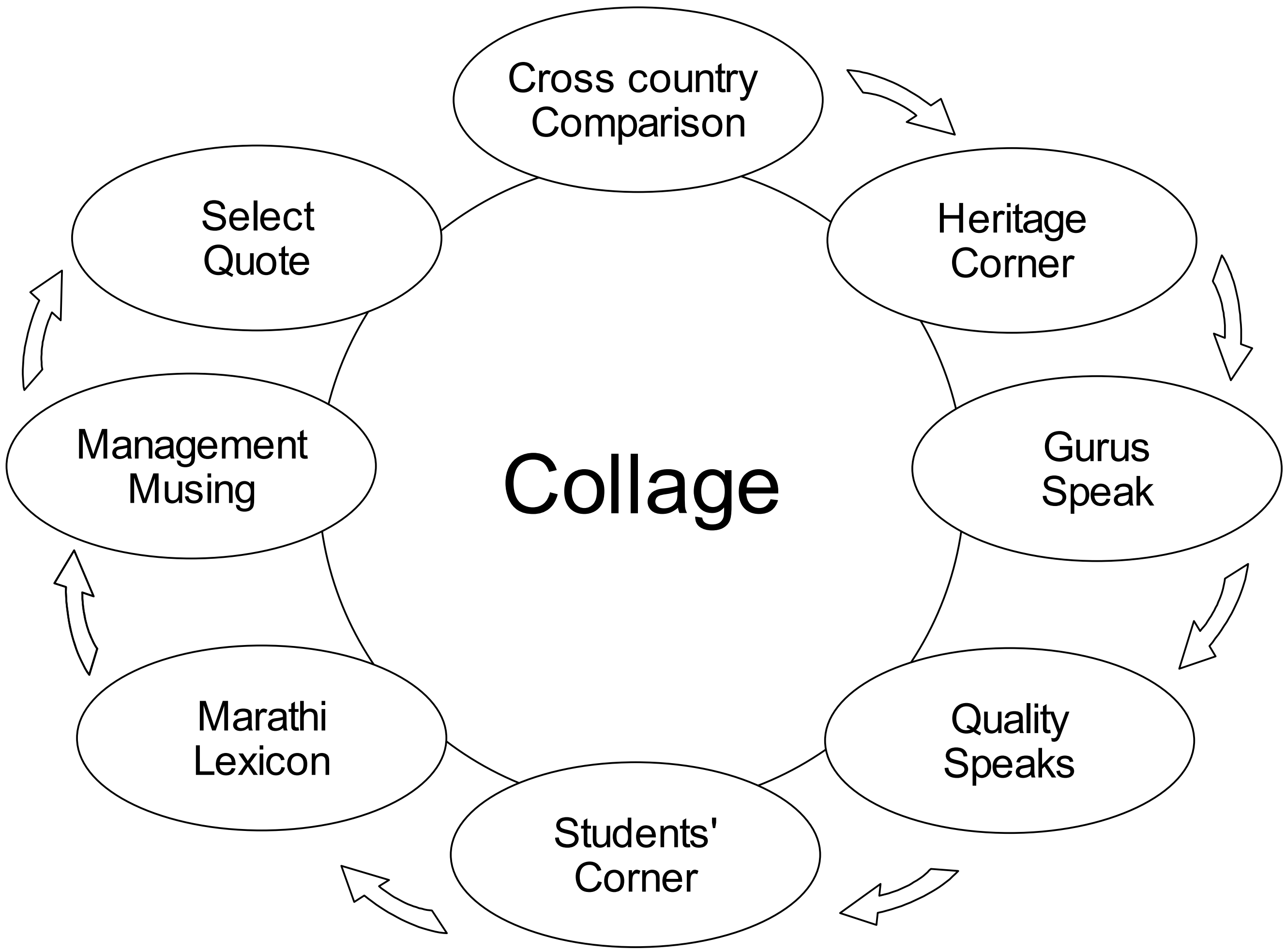
Collage on Management



Japanese Management Practices

Manmeet Singh Arora

"Japanese management practices succeed simply because they are good management practices. This success has little to do with cultural factors. And the lack of cultural bias means that these practices can be - and are - just as successfully employed elsewhere"
- Masaaki Imai

Major Features

Listed below are some key features of Japanese Management.

- Market First
- Long Term Commitment
- Training and Education
- Get-In-Touch
- Learn from Others
- Effort Evaluation
- Team Work
- Flexibility
- Quality First, Cost Last
- Customer First and Shareholder Last

JAPAN	U. S.
1. Customer	1. Shareholder
2. Employee	2. Customer
3. Community	3. Employee
4. Country	
5. Shareholder	

Japan and U. S. A – Management Comparison

The following table explores the various management aspects of Planning, Organizing, Staffing, Leading and Controlling

U.S	Japan
PLANNING	
Primarily short term orientation	Long term orientation
Individual decision making	Collective decision making with consensus
Involvement of a few people in making and selling the decision to people with divergent values	Involvement of many people in preparing and making the decision
Decisions are initiated at the top and flow down	Decision flow from bottom-to-top and back
Fast decision making; slow implementation requiring compromise, often resulting in sub optimal decisions	Slow decision making; fast implementation of the decision

U.S	Japan
ORGANIZING	
Individual responsibility and accountability	Collective responsibility and accountability
Clarity and specificity of decision responsibility	Ambiguity of decision responsibility
Formal bureaucratic organisational structure	Informal organisation culture
Lack of common organisation culture; identification with	Well-known common organisation culture and philosophy

U.S	Japan
profession rather than with company	

U.S	Japan
STAFFING	
Frequent company changes among employees	Hardly any mobility of people among companies
Rapid advancement highly desired and demanded	Slow promotions through the ranks
Loyalty to the profession	Loyalty to the company
Frequent performance evaluation for new employees	Very infrequent formal performance evaluation for young employees
Appraisal of short term results	Appraisal of long term performance
Promotions based on individual performance	
TandD undertaken with hesitation	TandD considered a long term investment
Job insecurity prevails	Lifetime employment common in large companies

U.S	Japan
LEADING	
Leader acts as decision maker and head of group	Leader acts as social facilitator and group member
Directive style (strong, firm, determined)	Paternalistic style

U.S	Japan
Often divergent values; individualism sometimes hinders cooperation	Common values facilitation cooperation
Face-to-face confrontation common; emphasis on clarity	Avoidance of confrontation, sometimes leading to ambiguities; emphasis on harmony
Communication primarily top-down	

U.S	Japan
CONTROLLING	
Control by superior	Control by peers
Control focus on individual performance	Control focus on group performance
Fix blame	Saving face
Limited use of quality control circles	Extensive use of quality control circles

Kaizen – The Japanese Strategy of Continuous Improvement

Kaizen means "improvement". Kaizen strategy calls for never-ending efforts for improvement involving everyone in the organisation.

Management has two major components: Maintenance and Improvement.

Maintenance

Objective is to maintain current technological, managerial, and operating standards. This is achieved through a combination of discipline and human resource development measures.

Improvement

Objective is to improve current standards. Improvement can be broken down between Innovation and Kaizen.

Innovation: a drastic improvement in the existing process and requires large investments;

Kaizen: small improvements as a result of coordinated continuous efforts by all employees.

Kaizen: Employee Empowerment

Kaizen encourages employee empowerment primarily through the following measures:

- Suggestion System
- Quality Control Circles(QCC)
- Total Quality Control (TQC)
- Process-Oriented Thinking as Opposite to Result-Oriented Thinking

Key Kaizen Practices

Kaizen practices can be viewed in two aspects (a) Mindset and Culture and (b) Production process.

The mindset and culture encompass:

- Customer orientation
- Quality control circles
- Suggestion system
- Discipline in the workplace
- Small-group activities
- Cooperative labor-management relations
- Total quality control
- Quality improvement

The Kaizen in Production Process is reflected in

- Automation and robotics
- Autonomation
- Zero defects
- Total productive maintenance (TPM)
- Kanban
- Just-in-time
- Productivity improvement
- New product development

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Chindia – A Synergy in making?

Smt. Deepti Gokhale

China

China being a communist country is ruled by agrarian law,where by in 1950 Mao Zedong enacted a law stating that all land belongs to the communist party. It took over the lands from landlords to relieve the peasants from their misery. This also worked against the poor land owners because even their small plots of land were not spared. The rich land lords had squeezed the poor and implemented inhuman methods. Thereby the poor people had to struggle for their basic necessities, like shelter, food, clothes.

China, the economically more backward country in 1950, has caught up with India and even surpassed India in several sectors. How did communist China catch up, and why did democratic India lose its lead?

Today every Chinese family in the rural sector tries to immigrate one family member to other parts of the World. World Bank report, recently says that child between the age of seven to fifteen receive no schooling. This difference is more so with the girls population. The imbalance between Chinese prosperous zones and the country side (rural) is so great that it threatens the country's stability and progress. The Chinese Government has now introduced reforms and measures to address the farmer's woes. These include tax reliefs and subsidies which existed earlier too. However, they were not properly implemented because of dishonest employers. Even today money comes to the farmers from the departed family members who are well employed. The banking institutions could not lend to the private businesses as it was illegal.

The scenario now is changing fast. China realizes that rural development is a necessity to balance the economic inequality that exists in the urban areas. This has happened because China has opened its economy to foreign players to open shop in China. The insecurities have imparted skills to the common man who can produce a similar product at a cheaper rate.

The Chinese people have learned the new technologies from the developing World and reverted to their mother land. Even the bold reforms and reversals are closely monitored by the party. Intense competition has created its own culture, enforced its efficiency which was rare previously.

As China is a land of huge population the products are still cheaper. They have to concentrate on producing quality material. They produce in huge quantities which makes the product cheaper. As the private companies are coming up in huge numbers it has created mass population employment opportunities. As the labour is unskilled the product though externally imitates quality product, it does not have the functionality and durability for the long run. Today these products being cheaper, are being exported to the Third World and Europe and America. They are being sold at a cheaper rate. The Western world and some of the developed countries of the Third World practice use and throw policy, where Chinese product finds a market for the small run.

Chinese nationalism is racing in parallel with China's globalisation. China's capacity to drive its desired goals of unification has been softened by its economic growth and integration into World economy China's technological advancement has pulled the shores of Taiwan closer to the reach of the Main land. China's growing international clout need not expand the countries military ambitions to confront the U.S. Skilful diplomacy can play a major role. The Chinese and the American economies are interdependent. China is deploying its national wealth by acquiring businesses in other parts of the world. China is having foreign exchange reserves, due to its cheap labour and open economy. This has helped the Chinese Government acquire the latest technologies from the investors giving them competitive edge over others.

Chinese strategy is not risk free. The Chinese find themselves owning assets for which their public companies have overpaid. Government sponsored buying spree of mineral companies helps the Chinese the power to fix prices in the World market and ensure they supply e.g. China has purchased power companies in Australia to train Chinese people about the technology and learn the markets.

India

India is a democratic country with a population of one billion. The Government policies to protect the Indian Business houses from foreign competition made the business houses confident but incompetent. They never invested in innovation and this hampered the growth. This was the License Raj. The business houses closer to the political heads got licenses and built a monopolistic kingdoms, corruption was rampant. Those who had the money and muscle power made the killing. It was the jungle rule: 'Survival of the fittest'.

In reality, India thrives on agriculture. The political will to promote agriculture is only lip service. They offer subsides on products for agriculture which reach certain sectors and some do not. This happens because there is rampant corruption and lack of accountability so the corrupt get more powerful. The Government policies have been forced to change and today these business houses are forced to compete. The withdrawal of subsidies has put a fear in the minds of employers and employees. The business houses are grumbling. These subsides have become a bane for the economic growth. It is a habit hard to wean. Earlier subsides or protection was required as India had acquired freedom, paying a heavy price. The country was devastated by the freedom struggle. It required nurturing "The government that came to power had to give sustenance".

Due to these subsides PSU's have incurred losses and continue doing so. The government has introduced reforms which promise to deliver and take India on a competitive level. Today you can find Indian companies registered on foreign Business exchanges. They are giving the parent companies run for their money. The Government has opened up the economy, so that foreign investors are finding India a better option to invest. Even cheap labour and high skills is one of the reason, outsourcing is finding its way to India. As it is easily evident from the fact that companies like Intel, Wall mart, Nokia have started investing in India and also have plans to start manufacturing activities. This will not only improve employment and also make the young to plan for a better career. This change is not restricted to manufacturing but has also seeped in to education. The government plans to have collaborations with reputed Institutes from European and Western countries to get the best, so that the students from India can avail the best education in India without leaving the shores. We are also opening shops in other developing countries. Mergers and acquisitions are common talk today. Many enterprising business houses have acquired businesses in U.S., U.K., Australia and many more. Today our medical science has made the western world to realize that the best services being costly in their part of the world, the same services with similar set of skills are available in India and still affordable The competition today has increased stress and strain on every one and they suffer from some disorder or the other. Some of our ancient methods of relieving people from stress and strain are being put to use, namely Yoga, meditation, transcendental meditation and other native skills by the forces within.

Our philosophies and teachings are being taught in other countries and our people also get an opportunity to present their skills. Over the years our people have been instrumental in developing the technology and expertise. GOI was crying hoarse of brain drain,today there is a reversal of trend. The people attain knowledge and expertise in other countries and come back to their mother land. This is because of numerous opportunities coming up due to open economic policies and the promise to multiply their profits. It is now up to the political will to sustain the growth and take steps to invest and open the economy for further investment. It has to practise transparency in all its deals at all levels, which will boost investor confidence. One of the biggest challenge faced by India is the sharp and sudden rise in world prices of crude oil. Oil refining and marketing companies have managed to caution much of the rise in prices, there by containing the rise in the rate of inflation in the range of 3.5 to 4% which had risen to 8.7% in August 2004.

International organisations like Goldman Sachs have pointed out that India would become the third largest economy in the world by the middle of the century. Many believe this would happen before them perhaps decade and half earlier. This is because of country's demographic profile. India has got great interiors rich in heritage, which can be developed as an tourist centre. This will generate foreign exchange for the state and the country. This can help the government to reinvest in infrastructure to provide still better facilities. As India has the potential, talent, the world today is interested in investing in India. The reforms should usher the growth and prosperity. Stock markets are booming, the culture of plastic money is spreading rapidly, banks are receiving more and more applications for home loans in urban areas and shopping malls are mushrooming.

Chindia?!!!

China and India will dominate the world. Together, they are home to 40 percent of the World's population. Both are among the world's fastest-growing economies: China, 8-10%; India, 6-7%. China is the factory of the World, India the outsourcing service centre, first in call centres and now moving to more sophisticated business process operations and clinical research activities of global corporations. This proves that sun rises in the east.

India and China are in the same league of Illiteracy, Population, stage of Development

China has become the bench mark for Indian reforms. Now both countries have realised and improved relations. They have taken some good steps for better future. The latest news is that India and China plan to celebrate 2006 as a year of friendship. They have signed M.O.U. about Nath-la border to be opened up for trade.

A large number of proposals have also been mooted i.e. Mutual translation of literacy classes, Business seminars of Industries, University workshops, Inauguration of Buddist Temple and Xuan Zang memorial in Nalanda, India and also signing of cultural programme 2006-08 and visit of two countries cultural departments By cooperation at the highest levels, the two largest economies of the world are poised to take charge. The world is awed and the expectations are pinned on them. Now the time of performance begin. The world at large refers to the galvanisation of India and China as CHINDIA!!!

Let us join hands to realise our potential and regain the past glory of India, where it was known as the Golden Bird, where trade and commerce flourished, the poverty was nearly non existent. A greater resolve is to tackle issues of corruption and underdevelopment, head long, will be the key, instead of wishing them away.

Summary

Sr. No.	Particulars	China	India
1	Population	1.3 Billion Approx.	1.2 Billion Approx
2	Country Size	9.5 Million Sq. KM	3287, 590 Sq. KM
3	Progress	Fast Track	Fast Track
4	History	Ancient	Ancient
5	Language	Chinese	Multilingual
6	Economy	Agriculture	Agriculture
7	Mainland ratio		
8	Polity	Communist	Democracy
9	Staple Food	Rice	Rice and Wheat
10	Historic Name	Cathay	Bharat/Sindhu
11	Dynasty	Mongolian	Aryan
12	Currency	Yuan	Rupee
13	FDI	Retail	RandD/BPO
14	Religion	Buddhism	Multi religious
15	GDP Growth	20% per annum	7-8% per annum

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Kautilya and Modern Management

Some excerpts from kautiliiyam arthashaastram (by Kautilya circa 321-296 BCE)

The *Artha-sastra* was written by Kautilya (321-296 BC), who is supposed to be a courtier of the Mauryan King. Kautilya's *Artha-sastra* is a great scientific treatise, which deals with a variety of topics including agriculture, animal husbandry, mining, trade etc. Kautilya, popularly known as Chanakya, was a great master of science, philosophy and economics. Basically the *Artha-sastra* is the 'science of economics', including organisation of productive enterprises, taxation, revenue collection, budget and accounts. This work has plenty to offer to management studies. An anthology is presented below to whet the intellectual appetite.

Principles of Management

01.15.42 कर्मणां आरम्भ उपायः पुरुषद्रव्यसम्पद् देशकालविभागो विनिपात प्रतीकारः कार्यसिद्धिरिति पञ्चाङ्गो मन्त्रः|

"Means to carry out works, command of plenty of men and wealth, allotment of time and place, remedies against dangers, and final success are the five constituents of every council-deliberation." (1.15.42 pp. 39)

Leadership

01.19.01 राजानं उत्थितं अनूत्तिष्ठन्ते भृत्याः | 01.19.02 प्रमाद्यन्तं अनुप्रमाद्यन्ति
01.19.03 कर्माणि चास्य भक्षयन्ति | 01.19.04 द्विषद्भिश्चातिसन्धीयते |
01.19.05 तस्माद् उत्थानं आत्मनः कुर्वीत |

"If the king is energetic, his subjects will be equally energetic. If he is slack (and lazy in performing his duties) the subjects will also be lazy, thereby, eat into his wealth. Besides, a lazy king will easily fall into the hands of the enemies. Hence the king should himself always be energetic"(1.19.1-5 pp. 54)

Kautilya says,

02.9.02 कर्मसु च एषाम् नित्यं परीक्षां कारयेत्, चित्तानित्यत्वात् मनुष्यानाम्
02.9.03 अश्वसधर्माणो हि मनुष्या नियुक्ताः कर्मसु विकुर्वते

"He (leader)should constantly hold an inspection of their works, men being inconstant in their minds" (2.9.2-3 pp. 96)

Keep An Open Mind to get Great Ideas

01.15.22 न कश्चिद् अवमन्येत सर्वस्य शृणुयान् मतम् | बालस्याप्यर्थवद्वाक्यं उपयुञ्जीत पण्डितः

"He should despise none, (but) should listen to the opinion of every one. A wise man should make use of the sensible words of even a child" (1.15.22 pp. 39)

Allocation of Duties

01.8.28 कार्यामर्थ्याद्द् हि पुरुषसामर्थ्यं कल्प्यते |
01.8.29 सामर्थ्यश्च विभज्यामात्यविभवं देशकालौ च कर्म च |
01.8.29 अमात्याः सर्व एव एते कार्याः स्युर्न तु मन्त्रिणः |

"From the capacity for doing work is the ability of the person judged. And in accordance with the ability, by suitably distributing rank among ministers and assigning place, time and work to them he should appoint all the ministers" (1.8.28-29 pp. 20)

Inputs for Decision Making

1.9.04 प्रत्यक्षपरोक्षानुमेया हि राजवृत्तिः

"The affairs of a king (leader) are (of three kinds) directly perceived, unperceived and inferred" (1.9.4 pp. 22)

Delegation

1.9.08 यौगपद्यात् तु कर्मणां अनेकत्वाद् अनेकस्थत्वाच्च देशकालात्ययो मा भूद् इति परोक्षं अमात्यैः कारयेत् इत्यमात्यकर्म |

"Because of the simultaneity of undertakings, their manifoldness and their having to be carried out in many different places, he (leader) should cause them to be carried by Ministers, unperceived (by him), so that there is no loss of place and time" (1.9.8 pp 22)

Teamwork

1.7.09 सहायसाध्यं राजत्वं चक्रं एकं न वर्तते |
1.7.09 कुर्वीत सचिवांः तस्मात् तेषां च शृणुयान् मतम्

"Rulership can be successfully carried out (only) with the help of associates. One wheel alone does not turn. Therefore, he should appoint ministers and listen to their opinion" (1.7.9 pp. 17)

The Art of Brain-Storming

1.15.58 आत्ययिके कार्ये मन्त्रिणो मन्त्रिपरिषदं चाहूय ब्रूयात्
1.15.59 तत्र यद्भूयिष्ठा ब्रूयुः कार्यसिद्धिकरं वा तत् कुर्यात्

"In an urgent matter, he (the leader) should call together the councilors as well as the council of ministers and ask them : What the majority among them declare or what is conducive to the success of the work, that he should do" (1.15.58,59 pp. 42)

Accessibility of Leader

01.19.26 उपस्थानगतः कार्यार्थिनां अद्वारासङ्गं कारयेत् |

"He (leader) should allow unrestricted entrance to those wishing to see him in connection with their affairs" (1.19.26 pp 55)

Wealth Preservation

01.17.23 काष्ठं इव घुणजग्धं राजकुलं अविनीतपुत्रं अभियुक्तमात्रं भज्येत |

Kautilya advises, "For , like the piece of wood eaten by worms, the royal family, with its princes undisciplined, would break the moment it is attacked" (1.17.23 pp. 48)

Wealth

09.4.26 नक्षत्रं अति पृच्छन्तं बालं अर्थोऽतिवर्तते |
09.4.26 अर्थो ह्यर्थस्य नक्षत्रं किं करिष्यन्ति तारकाः |

"Wealth will slip away from the foolish person, who continuously consult the stars; for wealth is the star of wealth; what will the stars do? Capable men will certainly secure wealth at least after a hundred trails" (9.4.26 pp. 500)

The Importance of Robust Internal Accounting Systems

02.7.30 दिवसपञ्चरात्रपक्षमासचातुर्मास्यसंवत्सरैश्च प्रतिसमानयेत् |

"He (the leader) should check the accounts for each day, group of five days (a week), fortnight, month, four months (quarterly) and a year" (2.7.30 pp. 91)

Strategy – Cost Benefit Analysis

09.1.01 विजिगीषुरात्मनः परस्य च बलाबलं
शक्तिदेशकालयात्राकालबलसमुद्दानकालपश्चात्कोपक्षयव्ययलाभापदां ज्ञात्वा विशिष्टबलो यायात्, अन्यथाऽऽसीत|

"After ascertaining the relative strength or weakness of powers, place, time, revolts in rear losses, expenses, gains and troubles, of himself and of the enemy, the conqueror should march" (9.1.1 pp 482)

Risk Management and Quality of Information

01.15.20 अनुपलब्धस्य ज्ञानं उपलब्धस्य निश्चितबलाधानं अर्थद्वैधस्य संशयच्छेदनं एकदेशदृष्टस्य शेष उपलब्धिरिति मन्त्रिसाध्यं एतत्
01.15.21 तस्माद् बुद्धिवृद्धैः सार्धं अध्यासीत मन्त्रम् |

"Coming to know what is known, definite strengthening of what has become known, removal of doubt in case of two possible alternatives, finding out the rest in a matter that is partly known – this can be achieved by external sources" (1.15.20-21 pp.39)

Road to Wealth Goes by The Countryside

07.14.19 जनपदः सर्वकर्मणां योनिः, ततः प्रभावः |

"Wealth and power comes from the countryside, which is the source of all activities" (7.14.19 pp. 434)

Matsyanyaya

01.4.13 अप्रणीतः तु मात्स्यन्यायं उद्भावयति 01.4.14 बलीयान् अबलं हि ग्रसते दण्डधराभावे |

"If the rod is not used at all, the stronger swallows the weak in the absence of the wielder of the rod" (1.4.13-14 pp.12)

01.4.08 तीक्ष्णदण्डो हि भूतानां उद्वेजनीयो भवति 01.4.09 मृदुदण्डः परिभूयते
01.4.10 यथाऽर्हदण्डः पूज्यते |

"A King severe with rod (punishment) becomes a terror. A king with mild rod is despised. The king with the just rod is honoured" (1.4.8-10 pp.12)

Theory of Motivating Employees

01.13.24 तुष्टान् अर्थमानाभ्यां पूजयेत् |
01.13.25 अतुष्टान् सामदानभेददण्डैः साधयेत् |

"Honours and rewards shall be conferred upon those that are contented, while those that are disaffected shall be brought round by conciliation, by gifts, or by sowing dissension, or by punishment."

Importance of Ethics in Business

01.2.12 प्रदीपः सर्वविद्यानां उपायः सर्वकर्मणाम् | आश्रयः सर्वधर्माणां शश्वद् आन्वीक्षिकी मता

"anviikshakii () is ever thought of as the lamp of all sciences, as the means of all action (and) as the support of all laws (and duties)" (1.2.12 pp. 9)

Catch 'em Young, Train 'em Young

01.17.31 नवं हि द्रव्यं येन येनार्थजातेन उपदिह्यते तत् तद् आचूषति |
01.17.32 एवं अयं नवबुद्धिर्यद् यद् उच्यते तत् तत्शास्त्र उपदेशं इवाभिजानाति |
01.17.33 तस्माद् धर्म्यं अर्थ्यं चास्य उपदिशेन्नाधर्म्यं अनर्थ्यं च |

"For, a fresh object absorbs whatever it is smeared with. Similarly, this prince, immature in intellect, understands as the teaching of the science whatever it is told. Therefore, he should instruct him in what conduces to spiritual and material good, not in what is spiritually and materially harmful" (1.17.31-33 pp. 49)

Source: Kautiliiyam Arthashaastram, Prof. R. P. Kangle (Translator), Maharashtra Rajya Sahitya Sanskriti Mandal, 1982

"India should continue to be what she is. How could India ever become like Japan, or any other nation for that mater of fact? In each nation, as is music, there is main note, a cultural theme, upon which all others turn. Japanese have taken everything from the Europeans, but they remain Japanese all the same, and have not turned European; while in our country the terrible mania of becoming westernised has seized upon us like a plague"

"So long as the millions live in hunger and ignorance, I hold every man a traitor, who having been educated at their expense, pays not the least heed to them"

- Swami Vivekananda

Mahatma Gandhi's Code of Conduct

A book Review by Dr. Guruprasad Murthy

"We must be the change we seek to make in the world"
— Mahatma Gandhi

Mahatma Gandhi was never against the amassing of wealth. He knew that enterprise engaged in trade and commerce would tend to accumulate wealth. He also knew that this would lead to social and economic inequalities. However he recommended the concept of trusteeship. This means a person who had a lot of money had to practice "aparigraha" i.e. non possession of wealth or surrender of wealth to society. Society would be the trust and the trustees would be the members of the society. Co-incidently all great works have advocated the same concept. The Bible says easier it is for a camel to pass through the eye of a needle than for a rich man to enter heaven. "Wealth undoes a man – artham, an-artham. In the same vein the sufi saints said that voluntary poverty is a way of life and is strongly recommended. The same message is also spelt out through the Bhagvad Gita. Mahatma Gandhi felt that there is never a shortage of food. He said "Nature provides for mankind' need, not for his greed. Again the Isha upanishad says Tyaktena bhunjita – 'renounce and enjoy'". Mahatma Gandhi's principle of trusteeship does not require total surrender. It only requires a change in attitude towards the accumulation of wealth. Owners of wealth should convert themselves in to managing trustees. His philosophy is 'from each according to his calibre and' 'to each according to his true need'. Gandhi's trusteeship concept was supposed to be a road to Ramrajya in India. Gandhi said "I will be very happy, indeed, if the people concerned behave as trustees, but if they fail, I believe we shall have to deprive them of their possession through the state with the minimum exercise of violence". What he preached was, to repeat, aparigraha (non possession). To him Khadi was the symbol of Indian humanity, of its economic freedom and equality.

With respect to education the Mahatma's approach was that "University education should be to turn out true servants of the people who will live and die for the country's freedom". The Gandhian economics tried to advocate the things work for all and subsistence for all.

However in modern times with rampant materialism, it is very difficult to practise trusteeship concept. As Mr. Vadilal Laloobhai Mehta himself "Can such love and equality in the economic field be possible in an industrial society which is largely acquisitive and competitive and which measures men's progress and advancement in terms of wealth and power and not in moral terms? The big gap in the living styles of the "haves" and "have-nots" today is a proof that the Mahatma's concept of Trusteeship has had no impact on the former"

Source: Dr. Guruprasad Murthy, "Mahatma's Arthashastra – Road to Ram Rajya in India" (Review article on the book "Equality Through Trusteeship" By Mr. Vadilal Lallubhai Mehta)

♦♦♦

Gurus Speak Corner

Quotes of various Management Gurus

The Six Pillars of Corporate Wisdom

Shri N R Narayana Murthy

1. I want to emphasise the importance of being trustworthy in your dealings. It is on such foundations that great organisations are created.
2. Fear is natural, but do not let your actions be totally governed by it. Just as fear may sometimes be the voice of your intuition, it might also be an invitation to explore yourself and the world.
3. A supportive family is the bedrock upon which lives and careers are built.
4. Learn how to manage yourself, separating the merits and demerits of a decision from the accompanying feelings. Infoscions call this 'being transaction oriented'.
5. Live your life and lead your career in a way that makes a difference to your society.
6. I want to close with words that are vividly etched in my mind. Joseph Campbell, the great American mythologist, when asked what he thought we were on this earth for, replied, "Follow your bliss. All else will follow."

Kiran Muzumdar Shaw

- Any business that cannot value its employees cannot endure.
- Any business that does not deliver value to its customers cannot endure.
- Any business that cannot create value for its stakeholders cannot endure.
- Any business that does not value its suppliers cannot endure.
- Any business that does not have values cannot endure.

Source: Chary, S.N., Business Gurus Speak, Macmillan India, P. , 2002.

"People who have great patience take rest only after finishing their job. The gods did not feel satisfied with the jewels they got from the sea, nor did they fear the deadly poison that emerged from the sea. They continue to churn the sea until they got the ambrosia. Similarly, intelligent people do not stop without achieving their goal." *- Nitishataka*

A visionary, Azim Premji is a tireless worker, simple, frugal and unostentatious. An astonishingly simple man who drives an Indian-made modest Fort Escort, he used to climb up ten floors to his office on M. G. Road Bangalore until it shifted to greener locales, far from the hustle and bustle of central Bangalore. While visiting Delhi, he prefers to stay at India International Centre Emulating their leader, Wipro executives in general stay at budget hotels. Azim Premji does not wear designer labels-not does his wife Yasmin.

An ardent follower of the Gandhian path he says:

"Mahatma Gandhi epitomizes the qualities of leadership by example – qualities of simplicity, honesty and commitment. I find his ideals very relevant to business."

Moreover, in a knowledge company whose core competencies include human intellect and learning, leaders have to walk the talk. Any dissonance between rhetoric and action by leaders will hasten the loss of credibility. The words of Mahatma Gandhi are still relevant; he said, "You must be the change you wish to see in the world".

Source: Chary, S.N., Business Gurus Speak, Macmillan India, pp 50-73, 2004.

D = DARE A = AMBITION

Dhirubhai Ambani and his sons realized that in this country demand was constrained by the lack of supply and if you increased supply, demand would automatically follow. Demand and supply were not two separate curves, independent of each other, as most textbooks on Microeconomics would depict. Had the Ambanis followed the 'extrapolation model' or 'curve fitting' or any other forecasting model to estimate demand, they would not have invested the way they did. Ambanis vision which made them see beyond these textbook curves is the primary reason for Reliance's success today.

'Reliance's core strength lies in its ability to implement best global practices, attract talented people and motivate them to achieve world standards. Reliance is an organization that has always believed in people and processes.' The conventional 'core competence' theory does not seem very relevant for Reliance.

Source: Chary, S.N., Business Gurus Speak, Macmillan India, pp 190-219, 2004.

Anand Milk Union Limited

It takes another superior visionary like Dr. Verghese Kurien to see the potential in the villagers, particularly the poor village farmers. It is these poor farmers who 'own' Amul today. Paradoxical, yet true. Standard business textbooks would seldom have bothered about these poor rural folks, because they do not have the capital; they do not have the disposable income. In fact, visionary leaders like these rewrite management theories.

Source: Chary, S.N., Business Gurus Speak, Macmillan India, pp.77-99, 2004.

"On the way to achieve his goal, a man of action sometimes speaks on the earth and at other times sleeps on cozy bed. Sometimes he eats herbs; at others, he relishes delicious food. Sometimes he wears rags; at others, he enjoys silken clothes. Still, a man of action does not care for his miseries." *- Nitishataka*

Infosys

Rs. 5 Share Quoted at Rs.3147 as on 25th April 2006

Narayana Murthy's favorite quote is, 'A good leader makes the impossible, possible'.

When Narayana Murthy set up Infosys in 1981, it was a small company with its offices in one bedroom. Little did he know then the size that his company would take. But the passion with which he set-up the tiny company was the same as it is today.

The thrill of such a pioneering job thus gave him a great learning opportunity and was the main reason that Narayana Murthy joined the team at IIMA under J.G. Krishnayya, Professor of Information Systems. Murthy received a salary of Rs. 800 a month. He says, 'It was the best decision of my life. There were many 20 –hour work days but Murthy loved being a pioneer, of working at the cutting-edge of computer technology those days.

'Leadership is about creating a vision, communicating that vision to one's followers, and exhorting them to move towards that vision'

Murthy could not get into the prestigious IIT for want of money to pay for tuition and other expenses.

Since all our business was outside we had very few operations in India and had no need to bribe anyone. May be we would have done it, if we would have been forced to by circumstances. Every corporation can only take a limited amount of nuisance; beyond that it becomes very difficult. There was one situation in Karnataka where an officer wanted us to bribe him. He told us to pay him 4 lakhs or pay the government 40 lakhs. We paid 40 lakhs.

Source: Chary, S. N., Business Gurus Speak, Macmillan India, 74-99, 2004.

"The Infosys value system can be captured in one line 'The softest pillow is a clear conscience"

'Learn ability is critical for us'. We define learn ability as the ability to extract generic inferences from specific instances and to use them in new, unstructured situations. The constant challenge is to move from information to insight. The future winners will be those firms that escape from the gravitational pull of the past on the fuel of innovation.

"A well known corporation embraces and practices a sound Predictability – Sustainability – Profitability – De-risking (PSPD model). Every enterprise must focus on high profitability in order to ensure the best return for its shareholders. Indeed, profitability is crucial for the long term success of a corporation. Finally the corporation must have a good de-risking approach that recognizes measures and mitigates risk along every dimensions. Corporate governance is focused on maximising shareholder value while ensuring fairness to all stakeholders.

The foundation of our corporate governance philosophy at Infosys is the belief that it is better to lose a billion dollars than to act in ways that make one lose a night's sleep."

Source: Chary, S. N., Business Gurus Speak, Macmillan India, pp. 74-99, 2004.

Personalities - Comparison and Contrasts

While Deepak Parekh is generally dressed in a jacket and tie, his whole demeanour is easy-going, making the other person comfortable, his conversation interspersed with Gujarati accented Hindi, in between. Dr. Kurien goes out of his way to please a guest, himself a very simple person. Same with Mukesh Ambani is so disarmingly simple and considerate. Kiran Mazumdar-Shaw is charm personified with absolutely no airs about herself.

These are all humble and disarmingly simple folk despite their towering success. Their extraordinary success owes partly to their humility and simplicity.

Source: Chary, S.N., Business Gurus Speak, Macmillan India, pp. 1-17, 2004.

Perhaps, with the exception of Dr Kurien who has helped spread the message of a cooperative movement, this argument appears to have some substance. None of them have been like Microsoft's Bill Gates who brought in 'Windows' or FedEx's Fred Smith who revolutionalised logistics around the globe. No Indian businessperson has been path-breaking in that sense, and in the international sense.

Source: Chary, S.N., Business Gurus Speak, Macmillan India, pp. 15, 2002.

Editorial Viewpoint

The greatest outcome of higher education should be character building which includes, inter alia, commitment, punctuality, discipline, regularity, patriotism. The Highest educational qualifications like a Ph. D or D. Sc should in addition to the listed attributes cause a person to be simple and humble – Simplicity and Humility are the hallmarks of Excellence in great personalities.

– Dr. Guruprasad Murthy

"Company of good people can reduce and mitigate the ignorance of the mind, can encourage truthful speech and moreover enhances ones social status and prestige. It can eliminate sin, makes and keeps the mind happy and helps in spreading name and fame. So one does not need to say that good company facilitates attainments of everything." – Nitishataka

Total Quality Management - The Seven Principles

Philosophy - Prevention

It is more effective, more rewarding, safer and healthier to prevent than to deal with them when they have occurred.

Approach - Leadership from management

Management's role must be to show clear LEADERSHIP by getting involved, being committed, Promoting, encouraging, driving, setting high standards and being a role model

Scale - Everyone has a responsibility

Management are ultimately responsible for the success or failure of the business, but everyone has a responsibility to ensure that they play their full part in ensuring their customers satisfaction and their own continuous improvement

Measure - Cost of quality

It is always cheaper to do the right things right first time & by measuring the costs of quality we can show how improving quality generates profit

Standard - Right things right first time

The Standards that we must always aim for Zero defects in what we do & how we do it since anything less is an acceptance of waste

Scope - Organisationwide

Every department, section & individual can & must play their part in satisfying their own customers needs so that we can all contribute towards satisfied external customers.

Theme - Continuous improvement

Quality is never ending journey where there is always room for improvement. We must improve at faster rate than our customers needs if we are to stay in business

Delight – Basis of Customer Satisfaction

The Customer is no longer the king, but an emperor.

Customer does not solely rely on customer satisfaction, but customer delight.

Customer satisfaction is predictable, like quality.

Delight forms a higher level of satisfaction and is unpredictable, and comes as a surprise.

Firms which have not began customer satisfaction, can they think of indulging customers with delight? The answer is yes if they wish to win the tomorrow's battles now.

Experience, today has gained an upper hand over the product.

Any increase in satisfaction has to be incremental.

A firm has to reconfigure its relationship with the customer.

Delight has become more desirable because of the deconstruction of the value chain.

Firms giving a delight to its customer than a competitive advantage.

The beauty of delight lies in its ability to raise the customer satisfaction bar.

Delight must be ceaselessly innovative, not a random occurrence, delight is effective if the organization sharply focused, and puts customer loyalty about its compulsions.

Delight is never cheap.

Innovative interactions with the customer can rejuvenate and revitalize.

Marriage of strategy and intuition brought about by the catalyst customer, is DELIGHT

Happiness = Actual Consumption/Desired Consumption

– Paul Samuelson, Nobel Laureate

QMS at Glaxo SmithKline Pharmaceuticals Ltd

*Dr. VN BRIMS, MMS I (2005-06) students**

Introduction

GSK India has a 6.5% market share in the Indian pharma market as on December 2005, depicting an overall sales growth of 7.7% and pharma business sales growth of 8.7%.

Augmentine remains GSK's No.1 power brand (others being Vozet and Cetzine). 'Augmentin' remains one of the company's highly priced products as it is manufactured with a highly upgraded and expensive technology. Further the company enjoys leadership position in Vaccines, Dermatalogists, Corticosteroids and Thyroid segments.

Three new products are planned to be launched in the market by F12/05 under Gastroenterology and Nutrional segments. Few of its Top Ten Power brands comprises of Betnovate (Rs 930mn of sales), Augmentin (Rs760mn of sales), Zinetac (Rs 530mn of sales), Phexin (Rs 490mn of sales).

The company made sales worth Rs.54.5mn through a new product called 'Ziming' patented from Novartis by paying to it a royalty of 5%. The brand is owned by GSK India itself.

GlaxoSmithKline Pharmaceutical conducts phase III clinical study in India for the parent company. GlaxoSmithKline Pharmaceutical expects export income to jump tremendously post-2005 due to increase in the company's clinical research capabilities. The company, meanwhile, has increased its employees strength for the clinical research unit. Total staff of GSK India (i.e. comprising staff of Pharma, AFC and QFC businesses) is about 4141 employees. The staff strength of pharma business is about 2234. Its Nashik plant has a staff strength of 813 people and Thane plant that of 500 people.

Quality Management System (QMS)

GSK Quality Statement:

"Quality is at the heart of everything we do – from the discovery of the molecule, through product development, manufacture, supply and sale - and is vital to all the services that support our business performance. " — JP Garnier Chief Executive Officer

GlaxoSmithkline ltd. has framed a Quality Management Policy for the company with the help of some mandatory policies as well as guidelines for the implementation of the same. Following are the various aspects of the Quality Management System which aid in its implementation:

1. Alignment:

Alignment is provided by the cascade and translation of quality strategy, standards and policy into aligned plans, objectives and consistent ways of working throughout the organisation.

2. Management Principles:

Management Principles provide a framework of Good Management Practice (GMP) built around the PDCA cycle which is fundamental to the way the company must manage its business.

* *Study submitted to Dr. VN BRIMS by MMS I (2005-06) students in partial fulfillment of the Course Requirements in Production Management – Facilitator:Prof. A. S. Chaubal*

3. Integration:

Integration of the above management principles with the GMP elements of the QMS provide an integrated effective system. The management principles are regarded as the core of the QMS. Following are the integrated eight sections of the Quality Management System:

4. Added Value:

Added Value results from QMS providing the framework within which process improvement and Operational Excellence (OE) initiative can be developed and implemented. The QMS is designed to be a valuable tool to drive improvement and deliver added value to our business.

3. A Customer Focused System:

This results from ensuring that QMS is efficient and effective in delivery the key requirements of quality compliance and improvement to our customer groups.

Quality Management System is divided into two parts:

I.Quality Assurance

II.Quality Control

Quality Assurance

1. Auditing

The supplier of raw material is decided after conducting visits and audits of the supplier's factory/godown. Then the required material is ordered. The Quality Control Team checks the sample of the raw material received to know whether it is as per the specifications required or not. Only after it has been checked, the same is sent to the production department for further use.

2. Validation

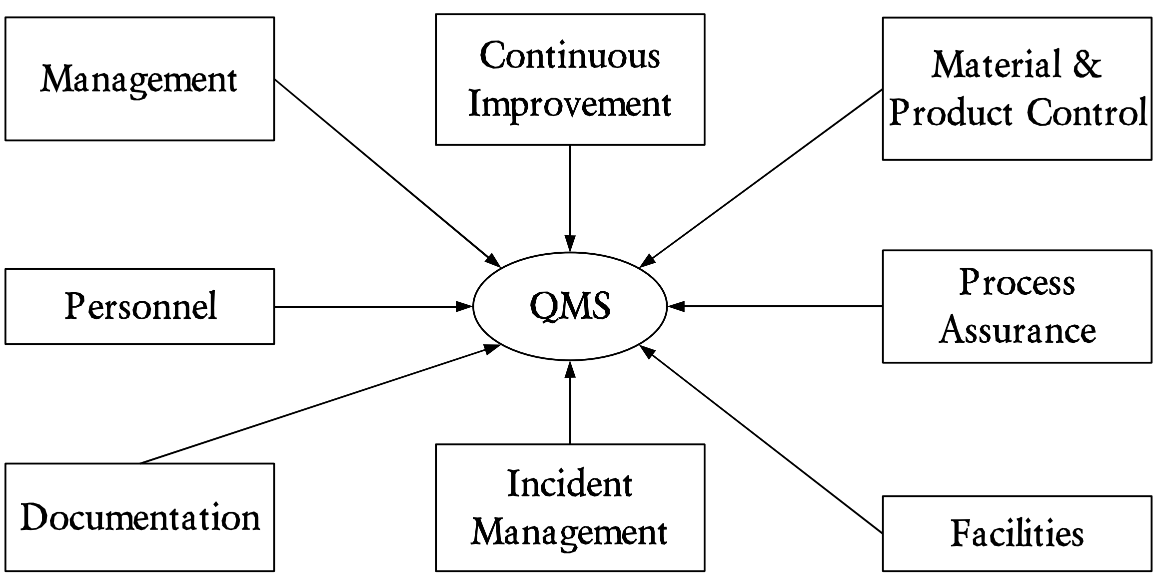
Validation means checking whether the concerned process or equipment consistently meets the requirement for which it is being used. Each process or equipment used for the purpose of checking the raw material or finished goods is validated before use.

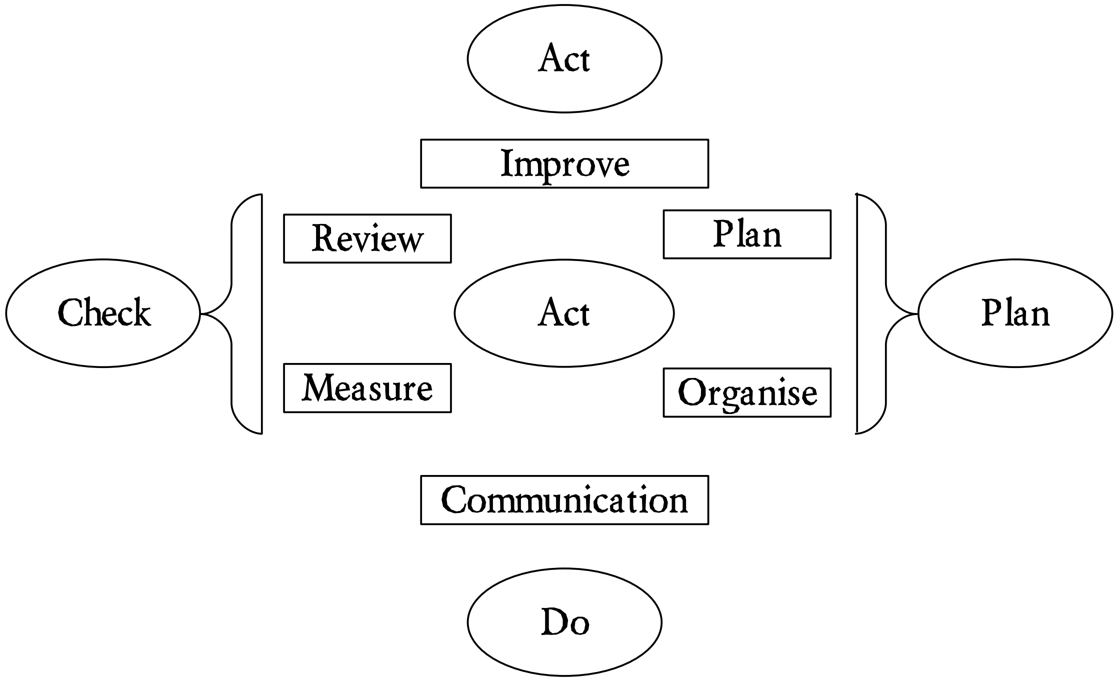
3. Batch Release

Once the production is completed, the Quality Control team checks the sample of the finished goods. A review of the manufacturing documents is done. If everything is as per the required parameters, then the batch of goods is released into the market.

4. Stability Testing

This is done to check the validity/shelf life of a particular commodity as to the maximum period till which it remains in usable condition. For example: a tablet is tested in different temperatures, different environmental conditions, etc. and its validity is checked. After checking, it is mentioned on its cover 'valid till 2 yrs from date of manufacture'.





II. Quality Control

The different parts of Quality Control are as follows:

a. In Process Testing

During the production of finished goods, certain tests are conducted to check if any moisture, humidity, etc is present in the mixture so that the same can be controlled. This is called "In Process Testing". For example: if any item requires the temperature to be 32 degrees, then the same is checked during 'in process testing' and then the production process is resumed.

b. Documentation

Each time any audit or check is carried out on any process or product, it is documented for further reference. The same can also be maintained as proof or evidence of internal audit carried out by the company. Documentation is an important procedure of Quality Management System.

c. Environmental Conditions

A check is kept on the environmental conditions at the place of production. The environmental conditions are maintained as per requirement of the item being produced.

d. Food and Drug Administration

Glaxo SmithKline Ltd. is governed by the Food and Drug Administration (FDA). The FDA prescribes certain rules and regulations to be followed by the company. The production policies of the company are regularly inspected by the regulatory body i.e. FDA.

e. Training

Every new employee is given training regarding 'do and don'ts' about the production process. This is also a FDA requirement.

f. Product Specification

i. Inspection: When the raw material is received from the supplier, the container are inspected and checked whether they are in acceptable condition or not. If there has been tampering of the containers, the same is returned to the supplier immediately.

ii. Sampling: If the containers are more than five, then samples are taken from any one container and tests are carried out. If there are five or less than five, then samples are taken from each container and are tested.

iii. Incident Management: The finished product is tested before sending it to the customers/market. If the product is not as per specifications, then it is marked as "Out of Specifications" (OOS).

Investigations are carried out to know the reason for the deviation. The equipments used, methods employed, etc. that are used in the laboratory are checked. The area of production is also tested. Accordingly, corrective and preventive action is taken to prevent re-occurrence of the deviation.

Quality Performance Indicators

They are indicators of quality:

1. Number of recalls

This indicates the number of times the batches of finished goods are sent back by the customers/wholesalers because they are not as per specifications. Higher number of recalls indicates higher deviations in the production process.

2. Number of Batches right first time

After the production is completed, the finished goods are tested to know if they are as per specifications. Higher number of batches right first time indicates higher level of efficiency.

3. Number of Reprocessing and Rewarding

If the batches of finished goods are not as per specifications, then they are sent for reprocessing and reworking to the production area. Higher number of reprocessing shows higher deviations in the processes.

4. Number of Customer Complaints

They are regarded as the indicator of inefficiency in the company. Hence corrective measures are adopted to prevent re-occurrence.

5. Number of Documentation Error

There should not be any documentation error during the testing of any product as these documents are further utilized as proof or evidence of audit.

♦♦♦

Dimensions of Service Quality

Tangibles	Appearance of Physical facilities, equipment, personnel, and communications materials.
Reliability	Ability to perform the promised service dependably and accurately.
Responsiveness	Willingness to help customers and provide prompt service.
Competence	Possession of the required skills and knowledge to perform the service.
Courtesy	Politeness, respect, consideration, and friendliness of contact personnel.
Credibility	Trustworthiness, believability, and honesty of the service provider.
Security	Freedom from danger, risk, or doubt.
Access	Approachability and ease of contact.
Communication	Keeping customers informed in language they can understand, and listening to them.
Understanding the Customer	Making the effort to know customers and their needs.

Business Communities of India

*Dr. VN BRIMS, MMS I (2005-06) Students**

Parsis

Core values of Parsis Community are Integrity, Understanding, Excellence, Unity, Responsibility, Honesty, and Humanity

Kamath

The name is synonymous with value for money, best quality food and service at affordable price.

Chettiars

Follow the philosphy "Division is the order of the day"

Marwari

Adjectives of Marwari Community - Entrepreneur driven, closely knit, maintains a shroud of secrecy, obedient, loyal, controlling power of the family.

Sikh

Founded by Gurunank, this community believes in truthful living, equality, social justice and devotion to god.

Patels

Derived from the term Patlikh – recordkeeper of crop for each *pat* or portion of royal land

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* *A study submitted to Dr. VN BRIMS by MMS I (2005-06) students in partial fulfillment of the course requirements in the paper Organisational Behaviour. Facilitator: Dr. Pooja Lakhanpal*

Business Communities of India — A Comparison

Community / Parameters	Parsis	Kamath	Chettiars	Marwari	Sikh
Religion	Zoroastrian	Hindu	Hindu	Hindu	Sikh
Origin	Persia	Gowda Saraswat Brahmins	Chettinad	Bikaner	
Peripheral places	Sanjan in Gujarat, Cambay, Navsari, Anklesvar, Variav, Vankaner, Surat, Thane, Chaul, Sind, Dehradun, Punjab.	Ratnagiri, Karnataka, entire coast of South	South and South East Asia, (Ceylon, Burma), USA, Singapore, Malaysia.	Bengal, Murshidabad	
Main Occupation	Business	Hotels	Artistic houses and tasty cuisine, Textile business.	Banking, Trading, Brokers	Agriculture
What they are known for	Hospitals, colleges, Research Institutes, Industrial Development	Hotels, Catering, Educational Institutions, Restaurants	Philanthropy (Building temples)	Money lending, trading	War like instinct and respect for family
Imp. Business Families	Jamsetji Tata, JRD Tata, Godrejs	Thayyil Muralidhar Kamath	Mr. Nalli Chinnaswami Chettiar	Desarda Family of Maharashtra	

The Patels

Any presentation of Business communities in India is incomplete without the Patels.

The Patels have a complex ethnic background and include (Persian), Indo-Iranian (and Gujjars, Kshatrias). Patels rarely have a Dravidian influence. However one can see Europeans (Polish and French) with the same surname. Indeed the word Patel in these cases does not mean Village Head. Instead it is the shortened version of Patelski.

Surname Patel is usually popular in Gujarat, North India (Rajasthan and Madhya Pradesh). Patels are spread all over the world and associated with commercial agriculture and own large tracts of land. Today, however, the patels are associated with business in the US and are very active in the lodge Industry and own many hotels and motels.

90% of the 9000 members of the Asian American Hotel Owner's Association (AAHOA) are Patels and as a group they own 18,000 hospitality properties and valued at US$40bn. Of course they are also professionals who are employed as doctors and engineers

History also records that during the rule of Portuguese in India many patels connected their surnames to Patil.

♦♦♦

B School Review

US varsities richer than some nations

Some Universities in USA are wealthier and have endowments larger than GDP of some of the developing countries.

In all 56 universities have endowments of more than 1 billion dollars each. 746 universities and colleges listed in the survey have 299 billion dollars in endowments attesting to the fact that education is big business in USA. In contrast, India cannot boast a single university in in the billion dollar league

All the universities and colleges in USA were started with modest contributions. They have build their endowments from private and corporate donations and recently from market investments

Many of them employ CFOs and money managers with hefty salaries to manage the funds. The point is well illustrated in the following table.

TOP DOLLAR

University	Endowments
HARVARD	26b
YALE	15.2b
STANFORD	12.2b
UNIV OF TEXAS	11.6b
PRINCETON	11.2b

Source — By Chidananda Rajghatta /TNN Times of India, 26/1/2006

Top Business Schools in India

1. IIM Ahmedabad
2. IIM Lucknow
3. IIM Bangalore
4. IIM Calcutta
5. Management Development Institute
6. Faculty of Management Studies
7. XLRI Jamshedpur
8. Jamnalal Bajaj
9. SP Jain Mumbai
10. XIMB Bhubaneshwar
11. ISB, Hyderabad

(Source: NRI Education)

The Indian School of Business (ISB) has scripted a new success story with placements touching new highs for the Class of 2006. Four ISB graduates have bagged offers that have broken the USD 200,000 mark. While the highest salary offer recorded at the ISB is USD 233,800 (Rs. 1.04 crore approx.), the average international salary at USD 120,700 (Rs 53.5 lakhs) is a 21% jump over 2005. On the home turf, the highest domestic salary at the ISB this year stood at Rs. 30.33 lakhs while the average Indian salary is Rs.11.77 lakhs, reflecting an increase of 18% from last year. : Source: http://www.isb.edu/campussbuzz1/ISB_Achieves_its_best_ever_Placements_Results.html

Placement Strategies of Indian B-Schools

*Dr. VN BRIMS MMS I (2005-06) Students**

Name of College	**JBIMS**	**NMIMS**	**SIES**	**SJSOM**	**NITIE**
Placement Cell	Consists of 8 selected senior and junior students.	Consists of 20-25 members. Coordinators are appointed.	Consists of 3 faculty members and both senior and junior students.	Consists of 6 members	Consists of 8 members.
Placement Process	**PRE-PLACEMENT TALKS**: It takes place between the students and company Student votings are done for the company on various parameters.			**PRE-PLACEMENT TALKS:** Organisations are formally invited to participate in the placement process.	**PRE-PLACEMENT TALKS:** Interactive process where organisation is introduced to students. Also includes preliminary interview, screening test.
	PLACEMENT PROCESS: Companies are informed of their slot and are given a choice to conduct the interviews on the campus.	**PLACEMENT PROCESS:** The placement procedure starts from the month of November.	PLACEMENT PROCESS: Senior students are taken from different streams (PGDBM, MMS, MCA) with different specializations.	PLACEMENT PROCESS: Slotting: Companies are allotted day and time slots to hold their final selection procedure.	PLACEMENT PROCESS: Short listing: The recruiter sends a shortlist and waitlist for final selection process on the basis of resume forwarded by the placement office.

* *A study submitted to Dr. VN BRIMS by MMS I (2005-06) students in partial fulfilment of the course requirements in the paper Communication Skills. Facilitator: Dr. Pooja Lakhanpal*

Name of College	JBIMS	NMIMS	SIES	SJSOM	NITIE
	Final interview is conducted on the placement day and company makes an offer to successful candidates at the end of its slot.	Placement Week: 11 to 17 Jan	Coordinator first instructs and helps the students to give presentations in front of the HR manager and after he approves the students make their presentations.	Final Placement Week: Companies with the consent of the committee decides upon the selection procedure. The specific terms and conditions are explicitly stated.	Day and Slot Status: Placement interviews are conducted. Each company is given a slot for their selection process.
	Candidate has an option to choose between offers made on the same slot. If he accepts the pre-placement offer, he has to sign the placement offer.	Companies are informed of their slot and are given a choice to conduct the interviews on the campus.	After a time of one-week follow up process is carried out. Students call out the HR manager to confirm about their visit.	Final Project: The Company offers 14-week final project to the graduating batch.	Final List**:** Recruiters are expected to release the final list of selected students.
		Lateral Placements: 17-24 Jan. It is in addition to the Executive Placement week. Students with work experience are eligible.	Finally a date is fixed for final placements and companies make a visit on that date to interview the students.	Summer Internship: 8-weeks summer internship is offered starting from the month of May. The process for this starts in the month of August of the previous year.	Lateral Recruitment Process: This is an opportunity for the prospective employers to get a perfect fit for their organisation as the batch has a diverse work experience.

It should be noted that a total of 27 B-Schools were visited. However, since the strategies adopted by them were more or less on the same lines with the above mentioned Institutes they are not listed down.

♦♦♦

Management Lexicon in Marathi

Compiled by Smt. Deepali Hindalekar

S. No	English Word	Marathi Word
1	Management	व्यवस्थापन
2	Organisation	संस्था
3	Order	आदेश
4	Planning	नियोजन
5	Motivation	प्रवृत्त करणे
6	Control	नियंत्रण
7	Marketing	विपणन
8	Financial	आर्थिक
9	Presentation	सादरीकरण
10	Co-ordination	समन्वय
11	Communication	संवाद
12	Leadership	नेतृत्व
13	Policy	धोरण
14	Prductivity	उत्पादकता
15	Creativity	सर्जनशीलता, कल्पकता
16	Performance	कृति
17	Innovative	नाविन्यपूर्ण
18	Goal	ध्येय
19	System	पद्धत
20	Procedure	प्रणाली
21	Implementation	अंमलबजावणी

S. No	English Word	Marathi Word
22	Innovation	आविष्कार
23	Effectiveness	परिणामकारकता
24	Project	प्रकल्प
25	Analysis	विश्लेषण
26	Marginal	सीमांत/काठावरचा
27	Strategy	व्युहरचना
28	Debt	कर्ज
29	Liquidity	तरलता
30	Turnover	उलाढाल
31	Perception	आकलन
32	Potential	अव्यक्त सामर्थ्य
33	Appraisal	मूल्यमापन
34	Collaboration	सहयोग
35	Negotialtion	वाटाघाटी
36	Profit and Loss	नफा-तोटा
37	Balance Sheet	ताळेबंद पत्रक
38	Ratio	गुणोत्तर
39	Return on capital	भांडवलावरील परतावा
40	Working Capital	खेळते/कार्यकारी भांडवल
41	Organisational structure	रचनात्मक आराखडा

S. No	English Word	Marathi Word
42	Production	उत्पादन
43	Marginal Cost	सीमान्त खर्च
44	Absolute Value	केवल/निरपेक्ष मुल्य
45	Corporate	संघटीत
46	Assessment	मुल्यनिर्धारण
47	Cost	उत्पादन मुल्य, परिव्यय
48	Credit	जमा नोंद
49	Debit Entry	नांवे नोंद
50	Depreciation	घसारा
51	Derivative	अनुजात, विकलन, विकलनांक
52	Utility	उपयोगिता
53	Legislation	विधिविधान
54	Documentation	लिखाण करणे
55	Efficiency	कार्यक्षमता
56	Field Study	क्षेत्रअभ्यास
57	Enterprise	साहसी उपक्रम
58	Fund	निधी
59	Equilibrium	समतोल
60	Hierarchy	श्रेणी
61	Hypothesis	परिकल्पना
62	Memorandum	ज्ञापन
63	Motion Study	हालचालींचा अभ्यास
64	Conflict	मतभेद

S. No	English Word	Marathi Word
65	Fiscal Policy	आर्थिक धोरण
66	General Body	अधिमंडळ/सर्वसदस्य
67	Approval	मान्यता
68	Licence	अनुज्ञाती
69	Capital Liability	भांडवली दायित्व
70	Line Relationship	अधिकार श्रेणी संबंध
71	Invoice	बिजक
72	Arbitrage	मूल्यांतर पणन
73	Arbitration	लवाद
74	Benchmark	थल चिन्ह
75	Executive	कार्यकारी
76	Fringe Benefits	अनुषंगी हितलाभ
77	Infrastructure	आधारभूत संरचना
78	Intervention	हस्तक्षेप
79	Operational Research	सक्रिय संशोधन
80	Strength	सामर्थ्य
81	Weakness	कमकुवतपणा
82	Oppurtunities	संधी
83	Threat	धमकी/संकट
84	Report	अहवाल
85	Orientation	ओळख
86	Induction	प्रतिष्ठापना/अंतर्भाव
87	Inducement	प्रलोभन
88	Monetary Policy	मुद्रा धोरण

S. No	English Word	Marathi Word
89	Inventory	अनुसूची
90	Quality	दर्जा
91	Tender	निविदा
92	Statement	विवरणपत्र, निवेदन तक्ता
93	Globalisation	जागतिकीकरण, आंतरराष्ट्रीय
94	Change Management	बदलाचे व्यवस्थापन
95	Collective Bargaining	सामूहिक वाटाघाटी सौदेबाजी
96	Industrial Dispute	औद्योगिक विवाद

S. No	English Word	Marathi Word
97	Subrogation	प्रोत्साहन
98	Supervision	पर्यवेक्षण
99	Administration	प्रशासन
100	Technique	तंत्र
101	Technocracy	तंत्रज्ञ सत्ता
102	Temporal	कालिक
103	Stock Taking	संग्रह पडताळणी
104	Subsidy	भरपाई
105	Currency	मुद्रा

♦♦♦

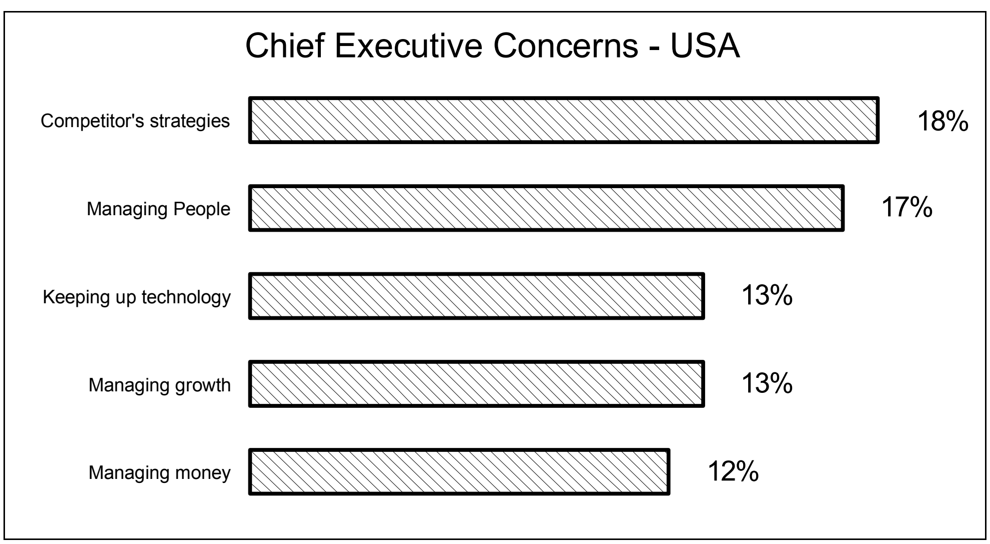
Management Musings

Management Gymnastics

A story goes that a guy fell in love with a dimple and married the whole girl.

These are trying times. From corporate to the corporal, the fall is not from a sublime to ridiculous is an assurance from management. The problem with the ready made, 'one size fits all, innovations, oversimplify the issue and promise a quick fix. Management today has woven a magic web of contradictory philosophies which seem to be an end in themselves. Total quality and culture change have faded to core competencies and organizational flattering. The stress from bench marking has shifted to outsourcing through downsizing. Now re-engineering and changed hierarchies promise the moon.

It is inevitable to remember that dimple being dimple and the whole girl being a whole girl, the research for panacea can come from fadless world .



History of Stanford University

Never let success go to your head. No matter what we achieve, it is important to remember that we owe this success to many factors and people outside us. This will not only help us in keeping our sense of modesty and humility intact but also help us to retain our sense of proportion and balance. The moment we allow success to build a feeling or arrogance, we become vulnerable to making bad judgements Let me illustrate this with another story:

A lady in faded dress and her husband, dressed in a threadbare suit, walked in without an appointment into the office of the president of the most prestigious educational institution in America.

The secretary frowned at them and said, "He will be busy all day."

"We will wait," said the couple quietly.

The secretary ignored them for hours hoping they will go away. But they did not. Finally, the secretary decided to disturb the president, hoping they will go way quickly once they meet him. The president took on look at the faded dresses and glared sternly at them. The lady said, "Our son studied here and he was very happy. A year ago, he was killed in an accident. My husband and I would like to erect a memorial for him on the campus."

The president was not touched. He was shocked. "Madam, we cannot put up a statue for every student of ours who died. This place would look like a cemetery."

"Oh, no," the lady explained quickly, "we don't want to erect a statue. We thought we would give a building to you."

"A building?" exclaimed the president, looking at their worn out clothes. "Do you have any idea how much a building costs? Our buildings cost close to ten million dollars!"

The lady was silent. The president was pleased and thought this would get rid of them. The lady looked at her husband. "If that is what it costs to start a university, why don't we start our own?" Her husband nodded.

Mr and Mrs Leland Stanford walked away, travelling to Palo Alto, California, where they established the university as a memorial to their son, bearing their name – the Stanford University.

The story goes that this is how Stanford University began.

I wish you every success in your career and your future life.

Source : -Azim Premji's Speech

Fedex - Eleven Principles of Management

- ◆You can never, ever do enough for your people
- ◆Everybody pitches in
- ◆Rewards are absolutely, positively everything
- ◆Problems have silver lining too
- ◆A winning culture has many culture
- ◆An ounce of inspiration is worth a pound of control
- ◆The first rule is change the rules
- ◆He who hesitates is lost.
- ◆Letting go is hard to do.
- ◆Image is the reality.
- ◆Software equals savings, service and sales

"The significant problems we face cannot be solved at the same level of thinking we were at when we created them" — Albert Einstein

"Alike 3 types of men, lower, medium and noble there are 3 types of works, actions. People who are mean and inferior, fear the ensuring difficulties and do not work at all, people who are of the medium type start their work, but if any adversities befalls on them they give up that work. But people who are noble despite adversities before and afterwards work continually and accomplish their work." — Nitishataka

Laxmi Mittal

Laxmi Mittal, an Indian and also in the Forbes List of richest persons in the World - 5th Rank (Mumbai Mirror dated 11th March, 06, p.22) is the biggest steel producer in the World. Mittal's forte is that his plants are located anywhere and everywhere except India. The Nehruvian model of mixed economy, a little of this and the balance of that or a little of that and the balance of this finally resulted in killing individual initiative, capabilities and resources. Genuine entrepreneurship was 'castrated' during the license raj.

TISCO a leading Indian Company producing steel could not rise to the Titanic standards of Lakshmi Mittal. TISCO produces a little more than 4 million tonnes of steel. Mittal produces at least 12 times more, having started about fifty five years after Tatas (1913). To quote Swaminomics "The Tata group was the richest by far in India when M. L. Mittal (Lakshmi's father) was still a scrap dealer". However, the gusto, gumption, go, dare, ambition, initiative par excellence, risk taking attributes et. al. were the stock-in-trade of the Mittals – primogeniture and posterity alike. Nehru rightly believed that, steel was a top priority for a country wedded to a mixed economy albeit an ally of socialism. To quote Jawaharlal Nehru "a number of textile mills is not industrialisation. It is playing with it. Industrialisation is a thing that produces the machines."

(Based on The Times of India -Swaminomics -2005)

Management Consultancy – Industry Worth $ 40 b.

Managements consultancy is where companies cease making goods that people need and start producing services that capitalism wants. It's a case of 'physician heals thyself'. The greater the level of change, the more opportunities there are for consultancy.

Handful of trouble shooters who were going into large companies in the early 60's, telling them of means to become more meaner and leaner and more efficient, have become large companies themselves.

'You can learn little from victory, but everything from defeat'

'The history of the world is full of men who rose to leadership by the sheer force of self-confidence.' - Mahatma Gandhi

Self-confidence is said to be characterized by assertiveness, optimism, eagerness, affection, pride, independence, trust, the ability to handle criticism and the ability to assess one's capabilities accurately. It has been suggested that a person should question himself or herself at regular intervals – 'When was the last time I congratulated myself for doing a good job?', 'What are my strengths and am I using them?' and 'To whom do I attribute my success-luck or myself?'

When questions like these are answered, they will not only help individuals to become more aware of their capabilities, but will also enhance their self-confidence. Although comparison with another person could make an individual feel inferior and affect his or her self-confidence, it is a practice which most people indulge in. spiritual leaders say that no two persons are the same. That is the way God has made them.

They add that no one can make others feel inferior without their consent. People themselves are responsible for feeling unworthy or inferior.

Another pertinent point made by spiritual leaders is that if one cannot respect oneself, one cannot respect God either. What people forget is that each human being is born with his or her share of flaws and good qualities. Thinkers assert that when there are both positive and negative aspects to an individual's personality, it is better to focus on the positive ones. Failure is no reflection on a person's capability. 'You can learn little from victory, but everything from defeat', is a well-known adage. Failure should be viewed in terms of feedback and should be dealt with like a learning experience.

Spiritual teachers explain that if persons doubt their capabilities, this attitude will only serve as an impediment in their work. They note that these people can actually do well if they have faith in themselves. What others think of a person is of little consequence. The person concerned needs to be sure of his or her own work and actions. As Stewart White once said, "Do not attempt to do a thing unless you are sure of yourself, but do not relinquish it simply because someone else is not sure of you."

-Roli Srivastava

Source: Page No. 3, The Times of India, Dated 29-02-2000.

"Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by- product of the activities of a casino, the job is likely to be ill-done."

— John Maynard Keynes

Select Management Quotes

Peter Drucker on Management

१. 'संसाधने' अशी स्वतंत्र गोष्ट नसतें . निसर्गातील उपलब्धीचा उपयोग आहे असे ध्यानात येऊन माणुस जेंव्हा तिला आर्थिक मुल्य देतो तेंव्हा तिचे संसाधनात रुपांतर होते.

1. There is no such thing as resource until man finds a use for something in nature and thus endows it with economic value.

२. कल्पकता म्हणजे संशोधन असे असतेच असे नाही. संशोधनाला आवश्यक असे साधन म्हणजे कल्पकता.

2. Innovation does not necessarily mean research, for research is one such tool of innovation.

३. आर्थिक क्षेत्रात कमी उत्पादनक्षमता म्हणजे वेतनात अधिक असमानता, अधिक उत्पादनक्षमता म्हणजे अधिक समानता

3. The less productive an economy, the greater the inequality of incomes; more productive, less the inequality.

४. 'व्यवस्थापन' हा संस्थेचा असा भाग आहे की जो समुहाचे रुपांतर व्यवस्थेत करतो तर मानवी प्रयत्नांना सादरीकरणाचे रुप देतो.

4. Management is the organ of institutions, the organ which converts a mob into an organisation, and human efforts into performance.

५. आपले काम पुरेशा गांभीर्याने न केल्यास माहिती क्षेत्रातील कार्यकर्त्यांना चांगले काम करता येणार नाही.

5. Knowledge workers will not do a good job unless they take their craft seriously.

६. आजच्या व्यवस्थापकाला फक्त प्रतिक्रियात्मक रहाता येत नाही तर त्याला सक्रिय असावे लागते. कार्योत्सुक राहुन कामाशी तादात्म पावणे ही त्याच्याकडुन अपेक्षा असते.

Today's Manager cannot confine himself to reacting; he must take the initiative and become an activity himself.

७. चढताना ज्याप्रमाणे पुन्हा पुन्हा प्रयत्न करावे लागतात त्या प्रमाणे वारंवार प्रयत्नशील असणे आवश्यक असते.

It always requires twice as much effort and skill to stay up as it did to climb up.

८. एखादी कल्पना मांडणे तिचा पाठपुरावा करणे याला धैर्य लागते.

It takes courage to take ideas upstairs.

९. इतिहासात कोणत्याही शतकांत २०व्या शतकाइतकी मूलभूत सामाजिक परिवर्तने झालेली नाहीत.

No century in human history has experienced so many social transformations and such radical ones as 20^{th} Century.

पैसे वाचविणे म्हणजे पैसे कमावण्यासारखेच आहे. – रामदास स्वामी, दासबोध

१. ऐक ज्ञानाचे लक्षण ज्ञान म्हणजे आत्मज्ञान पहावे आपणासि आपण या नाव ज्ञान ५.६.९

२. अधिकारपरत्वे कार्य होते अधिकार नसता व्यर्थ जाते जाणोनि शोधावी चिन्ते नाना प्रकारे

३. काबाडी वाहती काबाड श्रेष्ठ भोगिती रत्ने जद हे जयाचे तयासीच गोद कर्मयोगे ६.९.९

प्रगल्भ व्यवस्थापन तेच होय, जे आपल्या कर्मच्यार्यांना कर्यपुर्तीचा आनंद देइल असे वातावरण तयार करणे. - अजीत स. ग़ोपाल

व्यवस्थापनाचे काम जाणुन घ्यावयाचे असेल तर प्रभावीपणे योजना समजावुन देता आली पाहीजे. टी. एम. ब्लॅक

आपल्या कालाचे मध्यवर्ती आव्हान म्हणजे आपल्या खाजगी तसेच सार्वजनिक संस्था वृध्दिंगत करणे हे होय.

केवळ शैक्षणिक पात्रता व गुणवत्ता आणि क्षमता असणारी माणसे निवडणे पुरेसे नसते तर गरजेनुसार त्यांचे संवर्धन करणे व आपल्यातिल चांगले योगदान ते देऊ शकतील याचे भान व्यवस्थापकाला ठेवावे लागते.

संवाद व संप्रेषण या व्यवस्थापनातील महत्वाच्या बाबी होय.

शास्त्रीय जाणीवांच्या पायावर लोकांमध्ये ऐक्यभावना निर्माण होते.

चिंतनाशिवाय वाचन म्हणजे पचन झाल्याशिवाय खाणे.

आत्मविश्वास गमावणे हा सर्वात मोठा तोटा होय.

व्यवस्थेमुळे कार्यपध्दतीची प्रभावशीलता वाढुन त्या उपयुक्त ठरू शकतात.

गुणांचे मुल्यांकन ही व्यवस्थापनातील सर्वात जुनी व जागतिक मान्यता असणारी पद्धती आहे.

आत्मज्ञानाच्या योगाने जागृतिचा आपण अनुभव घ्यावा मग कोठे काय ते आपोआप कळू लागते. - श्री संत रामदास

रुप लावण्य ही अभ्यास करुन अंगी आणता येण्यासारखी नाहीत.उपजत गुण कोणत्याही उपायांनी पालटत नाहीत यासाठी काहीतरी नवीन सदगुणांचा अभ्यास करावा लागतो - श्री संत रामदास

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