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**(Where endeavour is success)**

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# Pravish Rajnam Journal of Studies

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## Editorial

This gives me an immense pleasure to announce that **'Pravish Rajnam - Centre for Management Education'** is coming out with its **third volume** of peer reviewed **journal** named as **'Pravish Rajnam - Journal of Studies' (ISSN 2348 -3652).**

'Pravish Rajnam - Journal of Studies' is a humble effort to come out with an affordable option of a low cost publication journal, at no profit no loss basis, with the objective of helping young and seasoned academicians to show their research and other works to the world at large and also to fulfill their academic aspirations.

The aim of the 'Pravish Rajnam - Journal of Studies' is to cover all areas where ever applications of human ingenuity with reference to decision making ability / managerial skills and knowledge are applied to obtain results in order to achieve success. The journal being bi-annual is published twice every year (i.e. in months of January and July every year).

It is matter of great honor and privilege to state that this particular issue is a **additional issue for current volume as collection of additional selected research based papers received from various researchers and academicians during month of January 2015.**

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I hope academicians and students will find out the journal to be very useful for enriching their knowledge and meeting their academic aspirations.

Thanks,

Dr.Rajesh Arora,
Chief Editor,
Pravish Rajnam Journal of studies
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ISSN 2348 -3652

## CONTENTS

## ARTICLES

ISSN 2348 -3652

# THE LESSONS FROM 'ASIAN FINANCIAL CRISIS OF 1997'

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## ABSTRACT

*The whole of Asian countries were affected by the financial crisis by the beginning of July 1997. This raised fears of economic meltdown whole world wide largely due to financial transactions getting intermingled. Some of the Asian countries suffered badly while some were least affected. After this steps were taken to improve situation and to prevent further collapse. This paper will highlight areas responsible for such crisis and areas were government concentrated to improve their financial position.*

**KEY WORDS** *Hot money, Thai Bath, Peg, Crony capitalism, fixed exchange rates, Chinese Renminbi, Japanese Yen, Plaza Accord of 1985, bank run, bank panic, bankruptcy, systematic banking crisis, asymmetric information, fixed exchange rate system, floating exchange rate system, herd mentality, financial hub, Handover of Hong Kong to China by British in 1997, financial ripple effect, Malaysian Ringgit, Currency speculation, Latin American debt crisis, Structural Adjustment Package (SAP) by IMF, Global financial crisis 2008-2009, junk bonds, non-performing loans, credit ratings, South Korean Won, chaebol, jueteng, EDSA II Revolution, different types of money supply, short selling, bamboo network, free trade agreements.*

## INTRODUCTION

The whole of Asian countries were affected by the financial crisis by the beginning of July 1997. This raised fears of economic meltdown whole world wide largely due to financial transactions getting intermingled.

These crisis first started in Thailand with the fall of the Thai Baht *(currency of Thailand)* when Thai government was forced to go for 'floating of the Thai' baht *(means using of floating method of currency valuation)* as there was decrease of foreign currencies support its fixed exchange rate by cutting its peg to the US Dollar *(peg means rate fixed for a currency in reference to another currency).*

This happened when there were extensive efforts to support it from the widespread financial meltdown coming largely from fall in real estate sector. During this period Thailand was having large burden of the foreign loans and advances which made country bankrupt much earlier than fall of its currency.

The crisis spread to other Asian countries with most of Southeast Asia and Japan saw their currencies falling, stock markets devaluing, prices of other assets falling, rise in private loans on account of non-payments, etc.

The countries which were most affected by the crisis were Indonesia, South Korea and Thailand. Countries like Malaysia, Philippines, Laos and Hong Kong were also affected by the fall of currencies. Some countries were also less affected by the crises like China, Singapore, Taiwan and Vietnam although there also demand was falling, people faith in country currency was shaking, etc.

Foreign debt to Gross Domestic Product ratios rose from 100% to 167% during 1993-96 in the four large ASEAN *(Association of South East Asian Nations)* economies then shot up beyond 180% during the worst of the crisis. In South Korea, the ratios rose from 13 to 21% and then as high as 40%, while the other northern newly industrialized countries fared much better. Only in Thailand and South Korea did debt service-to-exports ratios rose.

Though most of the Asian countries governments very by and large having sound fiscal policies still IMF *(International Monetary Fund)* stepped in by initiating a forty billion dollars program with a goal to calm down the currencies of economies hit hard by crises namely South Korea, Thailand, and Indonesia. These steps had little effect on stabilizing the global economic crises in Indonesia. The Indonesian President Suharto was forced to step down in May 1998 due to widespread fall in its currency value.

Though Singapore and Taiwan were relatively protected from the shock, but still both suffered from the passing crises. However by 1999 most of the Asian economies begin to recover. After this most of the Asian countries started working towards financial stability under some financial supervision.

Asia till 1999 attracted almost half of the total capital inflows into the developing economies. In particular economies of South East Asia provided higher interest rates to investors which made them attractive to foreign investors who were looking for a higher rate of return. Thus these economies received large inflows of funds and thus experienced an intense rise in their economies assets prices.

During this time in later 1980s and early 1990s the regional economies of Thailand, Malaysia, Indonesia, Singapore and South Korea experienced higher growth rates to the extent of 8 to 12 percent of their GDPs. This was termed as 'Asian economies miracle' by the World Bank and IMF.

## MAIN FACTORS CONTRIBUTING TO THE EAST ASIAN FINANCIAL CRISIS

The main factors contributing to the East Asian financial crisis are as follows:

1. Appreciation of real effective exchange rate.
2. Unsustainable high levels of current account deficit.
3. Explosive growth of external debt of the private sector.
4. Rapidly rising proportion of short-term debt in total external debt.
5. Rising proportion of speculative investment in aggregate foreign investment flows.
6. High fragility of the financial sector.
7. High degree of monetary growth.

## CREDIT BUBBLES AND FIXED CURRENCY EXCHANGE RATES

The causes of the disaster are many and still uncertain. Thailand's economy developed into an economic bubble as it was got fueled by surplus hot money. The growth of bubble increased the requirement of such hot money.

*(The hot money refers to the money that flows regularly at shorter intervals between the financial markets as investors attempt to ensure they get the highest short term interest rates as much as possible. The hot money flows from low interest rate yielding countries to the higher interest rates countries by those investors who look to make the highest return at shortest possible time).*

Similar situation was also seen in Malaysia and Indonesia where another complication of crony capitalism was also present.

*(The crony capitalism is a term used to describe an economy in which success in business depends on close relationships between business people and government officials. It may be exhibited by favouritism in the distribution of legal permits, government grants, special tax breaks or other forms of state interventionism in running of businesses).*

The short term capital flow was not only expensive but often used for making quick profits. The money meant for development works went to some certain persons who were though not best suited or most efficient but were close to the centers of powers.
By the mid of 1990s the economies of Thailand, Indonesia and South Korea had large deficits in private current accounts. The maintenance of fixed exchange rates encouraged large scale external borrowings and thus led to excessive exposure in financial and corporate sectors to the foreign exchange rates.
In the mid-1990s, a series of external shocks began to change the economic environment in Asia. These external shocks were like as stated below.
(1) The devaluation of Chinese Renminbi *(the currency of the People republic of China whose basic unit is yuan).*
(2) The devaluation of Japanese yen *(the official currency of Japan)* due to the Plaza Accord of 1985 were governments of Japan, United States, United kingdom, Germany and France decided to depreciate American dollar in relation to Japanese Yen and German Deutsche Mark in order to increase American exports and reduce its trade deficits.
(3) In early 1990s in order to recover from recession interest rates were raised to attract hot funds which in fact made South Asian countries exports more expensive and less competitive as their currencies were pegged to US Dollars.
(4) The fall of their exports deteriorated the Asian countries current account balances.
(5) Some of the economist believed that the growing exports of China also \contributed to fall of exports of ASEAN countries.
(6) Some also believed the real cause was excessive speculation in the real estate sector.
(7) Though some believed that China had begun to compete effectively in 1990s with other Asian nations as exporters largely due to number of export oriented reforms taken by the Chinese government. While other believed that both ASEAN and China had together experienced rapid growth of exports in early 1990s.
(8) Some also believed that Asian crisis were result of unfair incentives offered within lender and borrower relationship. This made availability of larger credit within the system providing highly leveraged economic climate which pushed up the prices of assets to an unsustainable position. Such assets prices over a period began to fall causing individuals and corporates unable to meet debt obligations.

**PANIC AMONGST LENDERS LED TO WITHDRAWAL OF CREDIT CAUSING CREDIT CRUNCHES AND BANKRUPTCIES AS HEAVY WITHDRAWALS OF CRISIS ECONOMIES CURRENCIES PUT DEPRECIATIVE PRESSURE ON THEIR EXCHANGE RATES**

The panic among lenders as a result of such policies led to a large withdrawal of credit and deposits from the crisis economies and leading to credit crunch and further bankruptcies. Also attempts by the foreign investors to withdraw their money deposited or advanced led to flooding of the currency exchange markets with the currencies of crisis economies putting depreciative pressure on their exchange rates.
These economies governments in order to arrest further collapse of their currencies raised domestic interest rates to very high levels and thus making their economies attractive to investors. Not only had such governments interfered in their economies foreign exchange markets by buying extra of their currencies at a fixed exchange rate through foreign exchange reserves. Neither of such policies is sustainable in the long run.

ISSN 2348 -3652

Very high interest rates can be very damaging to a healthy economy. While fragile economies were high interests are introduced gets wreaked completely. The Central Banks here have limited foreign exchange reserves to rely upon. When it became clear that the out flow of capital from these countries cannot be stopped then such economies stopped defending the fixed exchange rates reign followed by them. After this they started following floating exchange rate systems.

This resulted in depreciating value of such economies currencies which meant that foreign currency based external borrowings and liabilities will grew substantially in terms of domestic currency rates thus causing further more bankruptcies of Financial Institutions there and thus further deepening the financial crisis.

Other economists like Joseph Stiglitz and Jeffrey Sachs downplayed the role of the real economy in the crisis as compared to the financial markets. The rapidity with which the crisis happened has prompted Sachs and others to compare it to a classic bank run prompted by a sudden risk shock.

*(A bank run - also called run non the bank - occurs in a fractional reserve banking system when a large number of bank customers withdraw their deposits from a financial institution at the same time and either demand cash or transfer those funds into government bonds, precious metals or stones or a safer institution because they believe that the financial institution is, or might become, insolvent. As a bank run progresses, it generates its own momentum, in a kind of self-fulfilling prophecy as more people withdraw their deposits, the likelihood of default increases, thus triggering further withdrawals. This can destabilize the bank to the point where it runs out of cash and thus faces sudden bankruptcy).*

*(A banking panic or bank panic is a financial crisis that occurs when many banks suffer runs at the same time, as people suddenly try to convert their threatened deposits into cash or try to get out of their domestic banking system altogether).*

*(A systematic banking crisis is one where all or almost all of the banking capital in a country is wiped out. The resulting chain of bankruptcies can cause a long economic recession as domestic businesses and consumers are starved of capital as the domestic banking system shuts down).*

Jeffrey Sachs pointed to strict monetary and contrary fiscal policies implemented by the governments on the advice of the IMF in the wake of the crisis. Frederic Mishkin believed that presence of asymmetric information in financial markets led to development of herd mentality among investors which magnified otherwise smaller risk into a bigger risks. Such crisis attracts attention of behavioral economist interested in knowing market psychology.

*(Asymmetric information is a situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well. Potentially, this could be a harmful situation because one party can take advantage of the other party's lack of knowledge).*

*(Herd mentality refers to situation when people are influenced by their peers to adopt certain behaviors, follow trends, purchase and sale items specially related to stock market trends, superstition, home décor, etc. Sometimes also called as group intelligence, crowd wisdom or simply decentralized decision making).*

Another reason for such crisis can be due to handover of Hong Kong sovereignty during July 1997. It was during 1990s that hot money came to South East Asia through financial hubs like Hong Kong, etc. Once crisis griped the region coupled with political uncertainty regarding future of Hong Kong as a financial hub made investors who were ignorant of actualities and risk profiles of each economy in Asia started withdrawing their capital altogether from Asia. This worsened financial positions of various Asian economies which subsequently lead to depreciation of the Thai Bath during July 1997.

*(Financial hub is a city or region which is a city or region that is considered to be a focal point for the financial services industry. Financial hubs are home to major banks and/or stock exchanges as well as other financial services. They often develop in areas due to externalities, as well as supportive government regulations prevalence).*

*(Handover of Hong Kong to China by British during July 1997create one country with two systems as today though Hong Kong is part of China but with its own legal and economic system independent from that of China. Also Hong Kong Dollar continued to be used as legal tender currency though without Queen's portrait).*

**THE FOLD OF EVENTS AFTER FREE FALL**

Various case events on this topic felt that negative externalities in the financial hubs created financial ripple effect throughout the financial system as a whole.

*(Ripple effect refers to a situation in which ripples expand across the water when an object is dropped into it, an effect from an initial state can be followed outwards incrementally. The concept has also been applied to financial markets to describe the impact of a given event and how it propagates through the players in the industry and its effect on stock price and stock coverage).*

The foreign ministers of the 10 ASEAN countries believed that the well-coordinated manipulation of their currencies was a deliberate attempt to destabilize the ASEAN economies.

In fact the former Malaysian Prime Minister Mahathir Mohamad accused George Soros of ruining Malaysia's economy with 'massive currency speculation'. While George Soros claimed that been buyer of the ringgit during its fall and sold it short in 1997.

*(Malaysian Ringgit is currency of Malaysia).*

*(Currency speculation is the buying and selling of currency for the purpose of making profits from changes in the exchange rates).*

During 30th ASEAN Ministerial Meeting held at Malaysia, the Foreign Ministers together issued a joint declaration on 25th July 1997 expressing serious concern and called for further intensification of ASEAN's cooperation to safeguard and promote ASEAN's interest in this regard. Coincidentally, on that same day, the central bankers of most of the affected countries were at the EMEAP *(Executive Meeting of East Asia Pacific)* meeting in Shanghai but they failed to make the 'New Arrangement to Borrow' operational. A year earlier, the finance ministers of these same countries attended the 3rd APEC Finance Ministers Meeting in Kyoto, Japan on 17th March 1996 and according to that joint declaration, they had been unable to double the amounts available under the 'General Agreement to Borrow' and the 'Emergency Finance Mechanism'.

As such, the crisis could be seen as the failure to adequately build capacity in time to prevent currency manipulations. However Economists argue that it is not possible for single investor to have enough impact on the market in order to successfully manipulate the values of currencies of group of economies. Presence of group regulations rendered this possibility remote.

**THE ROLE OF IMF**

The scope and the severity of the collapses involved was of such a nature that outside intervention became necessity, it was considered by some as a new kind of colonialism. As the economies melting down were among not only the richest in their region, but also in the world, and as hundreds of billions of dollars were at stake, any response to the crisis was likely to be cooperative and at international level and in this case through the International Monetary Fund

(IMF). The IMF created a series of rescue packages termed as bailouts for most of affected economies in order to enable affected nations to avoid any default in payments. IMF also suggested series of economic, financial, banking, etc. reforms.

**THE ECONOMIC REFORMS SUGGESTED BY IMF**

The IMF's support was subject to series of economic reforms named as 'structural adjustment package' termed as SAP. These SAP's advised crisis struck economies to;

(1) Reduce government expenditures and deficits,

(2) Allow insolvent banks and financial institutions to fail, and

(3) Aggressively raise interest rates.

These steps would help in restoring confidence in the fiscal solvency position of the economies by protecting their currency values and penalizing the insolvent companies. Besides it was also specified that capital received from IMF will be administered sensibly and no favor be granted to some companies or associations for receiving the funds.

The need was felt to have adequate government controls to be set up in order to effectively supervise all financial activities. Besides it was emphasized to have transparent financial systems.

As economies fell into the crisis, many local businesses and governments who had taken out loans in US dollars found their loans suddenly becoming much more expensive as compared to local currency in which their earned income was valued. They found themselves in position of not being able to pay their creditors. The dynamics of this situation were similar to that of the Latin American debt crisis.

*(The Latin American debt crisis was a financial crisis which originated in the early 1980s and for some countries starting in the 1970s, often known as the 'lost decade' when most of the Latin American countries had reached a point where their foreign debt exceeded their earning powers and they were not able to repay it).*

The effects of the SAPs *(structural adjustment package)* were mixed and their impacts were controversial. The critics, however, noted these policies were contractionary in nature, as in traditional 'Keynesian Theory of Economics' during recession governments were supposed to increase their expenditures, lower interest rates and companies to revive their businesses.

The reasoning put up by the critics was that by stimulating the economy the recession can be warded off. The governments can restore confidence and thus prevent economic losses. They pointed out that the US government had had also pursued expansionary policies like lowering of interest rates, increasing of government spending, cutting of taxes, etc. when the United States itself had entered a recessionary period during 2001 and also during Global Financial Crisis 2008 - 2009.

*('The financial crisis of 2007–2008' also known as 'The Global Financial Crisis 2008' is considered by many economists to have been the worst financial crisis since The Great Depression of the 1930s. It threatened the total collapse of large financial institutions, which was prevented by the bailout of banks by national governments, but stock markets still dropped worldwide. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the 2008-2012 global recession and also contributing towards the European Sovereign debt crisis).*

Many observers in reconsideration criticized the IMF for encouraging the developing economies of Asia down the path of 'fast track capitalism', meaning liberalization of the financial sector *(elimination of restrictions on capital flows)*, maintenance of high domestic interest rates to attract foreign portfolio investment and capital, and pegging of the national currency to the dollar to reassure foreign investors against currency risk.

**IMF OPINIONS AND HIGH INTEREST RATES**

The conventional high-interest-rate economic wisdom is normally employed by monetary authorities to attain the chain objectives of tighten money supply, discourage currency speculation, stabilize exchange rate, curb currency depreciation and ultimately contained inflation.

In the Asian meltdown, highest IMF officials rationalized their prescribed high interest rates in following terms.

From then IMF First Deputy Managing Director, Stanley Fischer *(Stanley Fischer, "The IMF and the Asian Crisis," Forum Funds Lecture at UCLA, Los Angeles on 20th March 1998):*

"When their governments "approached the IMF, the reserves of Thailand and South Korea were perilously low, and the Indonesian Rupiah was excessively depreciated. Thus, the first order of business was... to restore confidence in the currency. To achieve this, countries have to make it more attractive to hold domestic currency, which in turn, requires increasing interest rates temporarily, even if higher interest costs complicate the situation of weak banks and corporations...

"Why not operate with lower interest rates and a greater devaluation? This is a relevant tradeoff, but there can be no question that the degree of devaluation in the Asian countries is excessive, both from the viewpoint of the individual countries, and from the viewpoint of the international system. Looking first to the individual country, companies with substantial foreign currency debts, as so many companies in these countries have, stood to suffer far more from… currency (depreciation) than from a temporary rise in domestic interest rates…. Thus, on macroeconomics… monetary policy has to be kept tight to restore confidence in the currency...."

From then IMF Managing Director Michel Camdessus *("Doctor Knows Best?" Asiaweek, 17th July 1998, page 46)*:

"To reverse *(currency depreciation)*, countries have to make it more attractive to hold domestic currency, and that means temporarily raising interest rates, even if this (hurts) weak banks and corporations."

**EFFECT ON THAILAND**

From 1985 to 1996, Thailand economy grew at an average of over 9% per year, the highest economic growth rate of any country at the time. Inflation was kept reasonably low within a range of 3.4–5.7%. The baht was pegged at 25 to the U.S. dollar.

On 14th May and 15th May 1997, the Thai Baht was hit by massive speculative attacks. On 30th June 1997, Prime Minister Chavalit Yongchaiyudh said that he would not devalue the baht. This was the spark that ignited the Asian financial crisis as the Thai government failed to defend the baht, which was pegged to the basket of currencies in which the U.S. dollar was the main component, against international speculators.

Thailand's booming economy came to a halt amid massive layoffs in finance, real estate, and construction that resulted in huge numbers of workers returning to their villages in the countryside and 600,000 foreign workers being sent back to their home countries. The baht devalued swiftly and lost more than half of its value. The baht reached its lowest point of 56 units to the U.S. dollar in January 1998. The Thai stock market dropped 75%. Finance One, the largest Thai finance company until then, collapsed.

Without foreign reserves to support the US Baht currency peg, the Thai government was eventually forced to float the Baht, on 2nd July 1997, allowing the value of the Baht to be set by the currency market. On 11th August 1997, the IMF unveiled a rescue package for Thailand with more than $17 billion, subject to conditions such as passing laws relating to bankruptcy (reorganizing and restructuring) procedures and establishing strong regulation frameworks for banks and other financial institutions. The IMF approved on 20th August 1997, another bailout package of $3.9 billion.

By 2001, Thailand's economy had recovered. The increasing tax revenues allowed the country to balance its budget and repay its debts to the IMF in 2003, four years ahead of schedule. The Thai baht continued to appreciate to 29 Baht to the U.S. dollar in October 2010.

**EFFECT ON INDONESIA**

In June 1997, Indonesia seemed far from crisis. Unlike Thailand, Indonesia had low inflation, a trade surplus of more than $900 million, huge foreign exchange reserves of more than $20 billion, and a good banking sector. But a large number of Indonesian corporations had been borrowing in U.S. dollars. During the preceding years, as the rupiah had strengthened respective to the dollar, this practice had worked well for these corporations, their effective levels of debt and financing costs had decreased as the local currency's value rose.

In July 1997, when Thailand floated the baht, Indonesia's monetary authorities widened the rupiah currency trading band from 8% to 12%. The rupiah suddenly came under severe attack in August 1997. On 14th August 1997, the managed floating exchange regime was replaced by a free-floating exchange rate arrangement. The rupiah dropped further. The IMF came forward with a rescue package of $23 billion, but the rupiah was sinking further amid fears over corporate debts, massive selling of rupiah, and strong demand for dollars. The rupiah and the Jakarta Stock Exchange touched a historic low in September 1997. Moody’s eventually downgraded Indonesia's long-term debt to ‘junk bond’.

*(Junk bonds are those where investments carry high default risk with lowest interest payouts).*

Although the rupiah crisis began in July and August 1997, it intensified in November 1997 when the effects of that summer devaluation showed up on corporate balance sheets. Companies that had borrowed in dollars had to face the higher costs imposed upon them by the rupiah's decline, and many reacted by buying dollars through selling rupiah, undermining the value of the latter further. In February 1998, President Suharto sacked Bank of Indonesia Governor J. Soedradjad Djiwandono, but this proved insufficient. Suharto resigned under public pressure in May 1998 and Vice President B. J. Habibie was elevated in his place. Before the crisis, the exchange rate between the rupiah and the dollar was roughly 2,600 rupiah to 1 U.S. dollar.

The rate plunged to over 11,000 rupiah to 1 U.S. dollar on 9th January 1998, with spot rates over 14,000 during 23rd to 26th January 1998 and trading again over 14,000 for about six weeks during June and July 1998. On 31st December 1998, the rate was almost exactly 8,000 to 1 U.S. dollar. Indonesia lost 13.5% of its GDP during that year.

After the crisis, on 2000, the Malaysia's SOE (State owned Enterprise) acquired Indonesia's SOE, the example is the banking sector, Maybank (Malaysian Banking Berhad, Malaysia state-owned bank) acquired BNI (Bank Negara Indonesia, Indonesia state-owned bank) on 29th December 1999 to 1st January 2000, with the agreement signatured by Abdurrahman Wahid (4th President of Indonesia) and Salahuddin of Selangor (11th Yang di-Pertuan Agong of Malaysia).

The crisis made Indonesia to declare East Timor as independent country from 1999 onwards.

**EFFECT ON SOUTH KOREA**

The banking sector was burdened with non-performing loans as its large corporations were funding aggressive expansions. During that time, there was a haste to build great conglomerates to compete on the world stage. Many businesses ultimately failed to ensure returns and profitability. The Chaebol, South Korean conglomerates, simply absorbed more and more capital investment. Eventually, excess debt led to major failures and takeovers.

For example, in July 1997, South Korea's third-largest car maker, Kia Motors, asked for emergency loans. In the wake of the Asian market downturn, Moody's lowered the credit ratings of South Korea from A1 to A3, on 28th November 1997, and downgraded again to B2 on 11th December 1997. That contributed to a further decline in South Korean shares since stock markets were already bearish in November 1997. The Seoul Stock Exchange fell by 4% on 7th November 1997. On 8th November, it plunged by 7%, its biggest one day drop to that date. On 24th November 1997, stocks fell a further 7.2% on fears that the IMF would demand tough reforms. In 1998, Hyundai Motors took over Kia Motors. Samsung Motors $5 billion venture was dissolved due to the crisis, and eventually Daewoo Motors was sold to the American company General Motors (GM).

The South Korean Won (currency of South Korea), meanwhile, weakened to more than 1,700 per U.S. dollar from around 800. Despite an initial sharp economic slowdown and numerous corporate bankruptcies, South Korea has managed to triple its per capita GDP in dollar terms since 1997. Indeed, it resumed its role as the world's fastest growing economy since 1960; per capita GDP has grown from $80 in nominal terms to more than $21,000 as of 2007. However, like the chaebol, South Korea's government did not escape unscathed.

*(The chaebol refers to the large, conglomerate family controlled firms of South Korea which are characterized by strong ties with government agencies. The name, which means a type of business association which are MNCs owing number of enterprises controlled by a Chairman who has power over all the operations).*

**EFFECT ON PHILIPPINES**

The Philippine Central Bank raised interest rates by 1.75 % points during May 1997 and again by 2 points in June 1997. The crisis triggered in Thailand start of July 1997 when The Philippine Central Bank intervened to defend the peso, the currency of Philippine, by raising its overnight rate from 15% to 32% during onset of the Asian crisis sometime in middle of July 1997. The peso dropped from 26 pesos per dollar at the start of the crisis to 38 pesos in middle of 1999 to 54 pesos in early August 2001.

The Philippine GDP contracted by 0.6% during the worst part of the crisis, but grew by 3% by 2001, despite scandals of the administration during 2001. The most notably the 'jueteng' scandal, causing the PSE composite Index, the main index of the Philippine Stock Exchange, to fall to 1,000 points from a high of 3000 points in 1997. The peso's value declined to about 55 pesos to the U.S. dollar. Later that year, Estrada was on the verge of impeachment but his allies in the senate voted against continuing the proceedings.

*(Jueteng - pronounced as hwe-teng - is an illegal number game played in the Philippines. It originated from China and where jue means flower and teng means bet. Although illegal, it is a widely popular game with participation that crosses most, if not all social and economic boundaries. With long odds and no limits on minimum or maximum bets, the lure of quick riches through a lucrative payout is by far its strongest appeal).*

This led to popular protests terminating in the EDSA II Revolution which was a four day political protest from 17th to 20th January 2001 that peacefully overthrew the government of Joseph Estrada 13th President of Philippines and elevated his Vice President Gloria Macapagal

Arroyo to the Presidency. Arroyo lessened the crisis in the country. The Philippine peso rose to about 50 pesos by the year's end and traded at around 41 pesos to a dollar in late 2007. The stock market also reached an all-time high in 2007 and the economy was growing by more than 7 percent, highest in nearly two decades.

*(Advocates described EDSA II as popular but critics view the uprising as a conspiracy among political and business elites, military top brasses. International reaction to the revolt was mixed).*

**EFFECT ON HONG KONG**

In October 1997, the Hong Kong Dollar, which had been pegged at 7.8 to the U.S. dollar since 1983, came under speculative pressure because Hong Kong's inflation rate had been significantly higher than the United States' for years. Monetary authorities spent more than $1 billion to defend the local currency. Since Hong Kong had more than $80 billion in foreign reserves, which is equivalent to 700% of its M1 money supply and 45% of its M3 money supply, the Hong Kong Monetary Authority (HKMA) - effectively the city's central bank - managed to maintain the peg.

*(The different types of money are typically classified as M's. The M's usually range from M0 as narrowest to M3 as broadest but which M's are actually focused on in policy formulation depends on the country's central bank. The typical layout for each of the M's is as follows:*

| ***Type of money*** | ***M0*** | ***MB*** | ***M1*** | ***M2*** | ***M3*** | ***MZM*** |
|---|---|---|---|---|---|---|
| *Notes and coins in circulation (outside Federal Reserve Banks and the vaults of depository institutions) (currency)* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| *Notes and coins in bank vaults (Vault Cash)* | | ✓ | | | | |
| *Federal Reserve Bank credit (required reserves and excess reserves not physically present in banks)* | | ✓ | | | | |
| *Traveler's checks of non-bank issuers* | | | ✓ | ✓ | ✓ | ✓ |
| *Demand deposits* | | | ✓ | ✓ | ✓ | ✓ |
| *Other checkable deposits (OCDs), which consist primarily of Negotiable Order of Withdrawal (NOW) accounts at depository institutions and credit union share draft accounts.* | | | ✓ | ✓ | ✓ | ✓ |
| *Savings deposits* | | | | ✓ | ✓ | ✓ |
| *Time deposits less than $100,000 and money-market deposit accounts for individuals* | | | | ✓ | ✓ | |
| *Large time deposits, institutional money market funds, short-term repurchase and other larger liquid assets*[10] | | | | | ✓ | |
| *All money market funds* | | | | | | ✓ |

*(Source: http://en.wikipedia.org/wiki/Money_supply)*

- *M0: In some countries, such as the United Kingdom, M0 includes bank reserves, so M0 is referred to as the monetary base, or narrow money.*
- *MB: is referred to as the monetary base or total currency. This is the base from which other forms of money - like checking deposits, listed below - are created and is traditionally the most liquid measure of the money supply.*
- *M1: Bank reserves are not included in M1.*

ISSN 2348 -3652

- *M2: Represents M1 and "close substitutes" for M1. M2 is a broader classification of money than M1. M2 is a key economic indicator used to forecast inflation.*
- *M3: M2 plus large and long-term deposits. Since 2006, M3 is no longer published by the US central bank. However, there are still estimates produced by various private institutions.*
- *MZM: Money with zero maturity. It measures the supply of financial assets redeemable at par on demand. Velocity of MZM is historically a relatively accurate predictor of inflation).*

In Hong Kong stock markets became more and more volatile between 20st and 23rd October 1997 the Hang Seng Index dropped by 23%. The HKMA then promised to protect the currency. On 15 August 1998, it raised overnight interest rates from 8% to 23%, and at one point to 280%. The HKMA had recognized that speculators were taking advantage of the city's unique currency board system, in which overnight rates automatically increase in proportion to large net sales of the local currency. The rate hike, however, increased downward pressure on the stock market, allowing speculators to profit by short selling shares.
*(Short-selling is the practice of selling an asset that you don't actually own, in the hope that the price will decline and you can buy it back in the future at a lower level. You can then keep the difference between the price at which you sold the assets and the lower price you paid to buy them back).*
The HKMA started buying component shares of the Hang Seng Index in mid of August 1998.
The HKMA and Donald Tsang, the then Financial Secretary, declared war on the speculators. The Government ended up buying approximately HK$120 billion (US$15 billion) worth of shares in various companies and became the largest shareholder of some of those companies (for example the government owned 10% of HSBC) at the end of August 1998, when hostilities ended with the closing of the August 1998 Hang Seng Index futures contract. In 1999, the Government started selling those shares by launching the Tracker Fund of Hong Kong, making a profit of about HK$30 billion (US$4 billion).

**EFFECT ON MALAYSIA**

In July 1997, within days of the Thai baht devaluation, the Malaysian ringgit was 'attacked' by speculators. The overnight rate jumped from under 8% to over 40%. This led to rating downgrades and a general sell off on the stock and currency markets. By end of 1997, ratings had fallen many notches from investment grade to junk, the KLSE had lost more than 50% from above 1,200 to under 600, and the ringgit had lost 50% of its value, falling from above 2.50 to under 4.57 on (23 January 1998) to the dollar. The then prime minister, Mahathir Mohammad imposed strict capital controls and introduced a 3.80 peg against the U.S. dollar.
Malaysian moves involved fixing the local currency to the U.S. dollar, stopping the overseas trade in ringgit currency and other ringgit assets therefore making offshore use of the ringgit invalid, restricting the amount of currency and investments that residents can take abroad, and imposed for foreign portfolio funds, a minimum one-year 'stay period' which since has been converted to an exit tax. The decision to make ringgit held abroad invalid has also dried up sources of ringgit held abroad that speculators borrow from to manipulate the ringgit, for example by selling short. Those who do, have to purchase back the limited ringgit at higher prices, making it unattractive to them. In addition, it also fully suspended the trading of CLOB (Central Limit Order Book) counters, indefinitely freezing approximately $4.47 billion worth of shares and affecting 172,000 investors, most of them Singaporeans.

In 1998, the output of the real economy declined plunging the country into its first recession for many years. The construction sector contracted 23.5%, manufacturing shrunk 9% and the agriculture sector 5.9%. Overall, the country's gross domestic product plunged 6.2% in 1998. During that year, the ringgit plunged below 4.7 and the KLSE fell below 270 points. In September that year, various defensive measures were announced to overcome the crisis.
The principal measures taken were to move the ringgit from a free float to a fixed exchange rate regime. Bank Negara fixed the ringgit at 3.8 to the dollar. Capital controls were imposed while aid offered from the IMF was refused. Various task force agencies were formed. The Corporate Debt Restructuring Committee dealt with corporate loans. It discounted and bought bad loans from banks to facilitate orderly asset realization.
Growth then settled at a slower but more sustainable pace. The massive current account deficit became a fairly substantial surplus. Banks were better capitalized and NPLs *(non-performing loans)* were realized in an orderly way. Small banks were bought out by strong ones. A large number of PLCs *(Public Limited Companies)* were unable to regulate their financial affairs and were delisted. Compared to the 1997 current account, by 2005, Malaysia was estimated to have a $14.06 billion surplus. Asset values however, have not returned to their pre-crisis highs. In 2005 the last of the crisis measures were removed as taken off the fixed exchange system. But unlike the pre-crisis days, it did not appear to be a free float, but a managed float, like the Singapore dollar.

**EFFECT ON SINGAPORE**

As the financial crisis spread the economy of Singapore dipped into a short recession. The short duration and milder effect on its economy was credited to the active management by the government. For example, the Monetary Authority of Singapore allowed for a gradual 20% depreciation of the Singapore dollar to cushion and guide the economy to a soft landing. The timing of government programs such as the Interim Upgrading Program and other construction related projects were brought forward.
Instead of allowing the labor markets to work, the National Wage Council pre-emptively agreed to Central Provident Fund cuts to lower labor costs, with limited impact on disposable income and local demand. Unlike in Hong Kong, no attempt was made to directly intervene in the capital markets and the Straits Times Index was allowed to drop 60%. In less than a year, the Singaporean economy fully recovered and continued on its growth trajectory.

**EFFECT ON CHINA**

The Chinese currency, the renminbi (RMB), had been pegged to the U.S. dollar at a ratio of 8.3 RMB to the dollar, in 1994. Having largely kept itself above the fray throughout 1997–1998 there was heavy speculation in the Western press that China would soon be forced to devalue its currency to protect the competitiveness of its exports vis-a-vis those of the ASEAN nations, whose exports became cheaper relative to China's. However, the RMB's non-convertibility protected its value from currency speculators, and the decision was made to maintain the peg of the currency, thereby improving the country's standing within Asia. The currency peg was partly scrapped in July 2005 rising 2.3% against the dollar, reflecting pressure from the United States.
Unlike investments of many of the Southeast Asian nations, almost all of China's foreign investment took the form of factories on the ground rather than securities, which insulated the country from rapid capital flight. While China was unaffected by the crisis compared to Southeast Asia and South Korea, GDP growth slowed sharply in 1998 and 1999, calling attention to structural problems within its economy. In particular, the Asian financial crisis convinced the Chinese government of the need to resolve the issues of its enormous financial weaknesses, such

as having too many non-performing loans within its banking system, and relying heavily on trade with the United States.

**EFFECT ON UNITED STATES AND JAPAN**

The ‘Asian flu’ had also put pressure on the United States and Japan. Their markets did not collapse, but they were severely hit. On 27 October 1997, the Dow Jones industrial plunged 554 points or 7.2%, amid ongoing worries about the Asian economies. The New York Stock Exchange briefly suspended trading. The crisis led to a drop in consumer and spending confidence. Indirect effects included the dot-com bubble, and years later the housing bubble and the subprime mortgage crisis.

Japan was affected because its economy is prominent in the region. Asian countries usually run a trade deficit with Japan because the latter's economy was more than twice the size of the rest of Asia together; about 40% of Japan's exports go to Asia. The Japanese yen fell to 147 as mass selling began, but Japan was the world's largest holder of currency reserves at the time, so it was easily defended, and quickly bounced back. The real GDP growth rate slowed dramatically in 1997, from 5% to 1.6%, and even sank into recession in 1998 due to intense competition from cheapened rivals. The Asian financial crisis also led to more bankruptcies in Japan. In addition, with South Korea's devalued currency, and China's steady gains, many companies complained outright that they could not compete.

Another longer-term result was the changing relationship between the United States and Japan, with the United States no longer openly supporting the highly artificial trade environment and exchange rates that governed economic relations between the two countries for almost five decades after World War II.

**EFFECT ON INDIA**

The broad spheres of Indian economy that can be regarded as most vulnerable to the East Asian crisis are the exchange rate, the stock market, and the foreign trade.

It is obvious that the financial crisis in East Asian countries would generate significant expectations of downward movement in Indian rupee as well as Indian stock market and adversely affect the balance of India's trade especially with East Asian countries.

**Exchange Rate**

Assessment of India's foreign exchange market during the latter half of 1997-98 made by RBI in the context of East Asian financial crisis was as follows;

"The year 1997-98 posed a severe challenge for the exchange rate management in the face of the threat of external contagion and domestic uncertainty. Excess supply condition in the foreign exchange market which characterized 1996-97 spilled over into the period April-August 1997. However, despite strong fundamentals, partly as a result of the South-East Asian crisis, the rupee weakened in the last week of August."

In this context, it would be interesting to examine the actual behavior of the rupee exchange rate during the period from June 1997 to January 1998. The average dollar rate in June 1997 was Rs 35.81, which increased to Rs 36.43 in September 1997 but improved to Rs 36.22 in October 1997. It was only during November 1997 when intense pressure on the rupee started building up and, as a result, the dollar rate increased considerably in the subsequent period to reach Rs 39.4 in January 1998.

It is difficult, however to attribute the noticeable though relatively much smaller depreciation of about 8 per cent in Indian rupee during the period from November 1997 to January 1998 to the East Asian contagion effect, since the same period was essentially characterized by major political uncertainties arising from the announcement of mid-term polls.

Thus, the Indian currency has for all practical purposes remained quite insulated from the East Asian virus.

**Stock Market**

The major and by far the most significant effect of the East Asian crisis on the Indian economy were felt in the country's stock markets.

Under the bullish spell created by Mr Chidambaram's dream budget, the BSE Sensex had reached the level of 4256 by the end of June 1997, which crashed to 3876 by the end of August 1997 and partially recovered to 3934 by the end of October 1997, indicating a decline of 7.6 per cent during July-October 1997.

It is important to note that the drop in the Indian stock market in response to the collapse of the Hong Kong stock market on October 23, 1997 can only be regarded as moderate, with the BSE Sensex falling by around 5 per cent over three trading sessions during the last week of October.

The major and pronounced fall in the stock markets occurred during the period from November 1997 to January 1998, with the BSE Sensex declining by 18 per cent to reach the level of 3224 by the end of January 1998.

It is again evident that a large proportion of this decline can be attributed to the political uncertainty rather than the East Asian crisis.

In fact, soon after the general elections, the BSE Sensex increased significantly to reach the level of 4007 by the end of April 1998, indicating a strong recovery of more than 25 per cent from the low levels reached in January 1998.

It may be noted that during the period from July to October 1997, the net FII investments in Indian stock markets were not only positive but also substantial amounting to US$ 860 million, with FIIs being net buyers in each of the four months.

It was only during the subsequent period from November 1997 to January 1998 that the net FII investments turned negative, their net aggregate sales during the three month period being US$ 322 million.

Thus, during the entire period from July 1997 to January 1998, Indian stock markets witnessed positive portfolio investment of US$ 538 million by foreign institutional investors, unlike the East Asian countries where the portfolio investments turned substantially negative during the same period.

Moreover, during the subsequent period, especially February and March 1998, the net FII investments turned positive and the portfolio investment inflows during these two months more than offset the negative FII flows experienced during the preceding three months which were characterized by uncertain political climate.

**Foreign Trade**

The East Asian crisis has direct as well as indirect implications for India's foreign trade. The direct implications of the crisis relate to the changes in India's exports to the East Asian countries and India's imports from these countries.

The estimates of India's foreign trade with the four East Asian countries, based on the latest available information, are presented in the table given below.

India’s Trade with Four East Asian Countries (US$ Million)

| Country | 1996-97 | | | 1997-98 | | |
|---|---|---|---|---|---|---|
| . | Exports | Imports | Trade Balance | Exports | Imports | Trade Balance |
| Thailand | 300 | 197 | 103 | 373 | 230 | 143 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| Indonesia | 592 | 599 | -7 | 435 | 729 | - 294 |
| Malaysia | 531 | 1041 | -510 | 481 | 1184 | - 703 |
| S. Korea | 519 | 884 | - 365 | 411 | 896 | - 485 |
| Total of 4 Countries | 1942 | 2721 | - 779 | 1700 | 3039 | - 1339 |
| Share in Total Trade | 5.8% | 7.0% | | 5.0% | 7.5% | |

## CONCLUSION

The overall impact of the East Asian financial crisis on the Indian economy can at most be described as moderate. The slowdown of India's industrial growth and exports, the moderate depreciation of Indian currency, and the significant fall in the stock market experienced during the last quarter of 1997 and the first three quarters of 1998 can actually be attributed more to the climate of political uncertainty rather than the East Asian crisis.

The downgrade of the country's credit rating by international agencies in 1998 has also not created any major negative impact on the foreign capital inflows, which seem to have been affected more on account of the prevailing political uncertainty coupled with the perceived threat of sanctions.

Prior to the onset of the East Asian crisis, India had trade surplus with Thailand, almost balanced trade with Indonesia, and trade deficit with Malaysia and Korea and the situation continues to be more or less the same even in 1997-98. However, the direct consequence of the East Asian crisis on India's foreign trade is reflected in the significant increase in India's overall trade deficit with these four countries from less than $ 0.78 billion in 1996-97 to more than $ 1.34 billion in 1997-98. Thus, Indian economy has suffered a loss of $ 0.56 billion through increased trade deficit as a result of the East Asian crisis. It is interesting to note that only one-third of this amount represents the loss of export market, while the remaining two-thirds actually represent higher imports from East Asian countries indicating the effect of their substantially cheaper products replacing the domestic products.

Given the above estimates, the direct impact of East Asian crisis cannot be regarded as significant in relation to the overall magnitude of India's foreign trade. However, the aggregate picture can conceal massive effects on individual industries.

An analysis of the commodity composition of India's exports to East Asian countries shows that the extent of decline in exports has been quite high in the case of gems and jewellery, raw cotton, and steel industry.

## CONSEQUENCES AND LESSONS LEARNED

### Asia

The crisis had significant macroeconomic-level effects, including sharp reductions in values of currencies, stock markets, and other asset prices of several Asian countries. The nominal U.S. dollar GDP of ASEAN fell by $9.2 billion in 1997 and $218.2 billion (31.7%) in 1998. In South Korea, the $170.9 billion fall in 1998 was equal to 33.1% of the 1997 GDP. Many businesses collapsed, and as a consequence, millions of people fell below the poverty line in 1997–1998. Indonesia, South Korea and Thailand were the countries most affected by the crisis.

| **Currency** | **Exchange rate (per US$1)**[45] | | **Change** | **Country** | **GNP (US$1 billion)**[45] | | **Change** |
|---|---|---|---|---|---|---|---|
| | June 1997 | July 1998 | | | June 1997 | July 1998 | |
| | | | | Thailand | 170 | 102 | ▼ 40.0% |

| | | | |
|---|---|---|---|
| Thai baht | 24.5 | 41 | ▼ 40.2% |
| Indonesian rupiah | 2,380 | 14,150 | ▼ 83.2% |
| Philippine peso | 26.3 | 42 | ▼ 37.4% |
| Malaysian ringgit | 2.5 | 4.1 | ▼ 39.0% |
| South Korean won | 850 | 1,290 | ▼ 34.1% |

| | | | |
|---|---|---|---|
| Indonesia | 205 | 34 | ▼ 83.4% |
| Philippines | 75 | 47 | ▼ 37.3% |
| Malaysia | 90 | 55 | ▼ 38.9% |
| South Korea | 430 | 283 | ▼ 34.2% |

*Source: Cheetham, R. 1998. Asia Crisis. Paper presented at conference, U.S.-ASEAN-Japan policy Dialogue. School of Advanced International Studies of Johns Hopkins University, 7–9 June, Washington, D.C.*

The above tabulation shows that despite the prompt raising of interest rates to 32% in the Philippines upon the onset of crisis in mid-July 1997, and to 65% in Indonesia upon the intensification of crisis in 1998, their local currencies depreciated just the same and did not perform better than those of South Korea, Thailand, and Malaysia, which countries had their high interest rates set at generally lower than 20% during the Asian crisis. This created grave doubts on the credibility of IMF and the validity of its high-interest-rate prescription to economic crisis.

The economic crisis also led to a political upheaval, most notably culminating in the resignations of President Suharto in Indonesia and Prime Minister General Chavalit Yongchaiyudh in Thailand. There was a general rise in anti-Western sentiment, with George Soros and the IMF in particular singled out as targets of criticisms. Heavy U.S. investment in Thailand ended, replaced by mostly European investment, though Japanese investment was sustained. Islamic and other separatist movements intensified in Southeast Asia as central authorities weakened.

New regulations weakened the influence of the bamboo network, a network of overseas Chinese family-owned businesses that dominate the private sector of Southeast Asia. After the crisis, business relationships were more frequently based on contracts, rather than the trust and family ties of the traditional bamboo network.

More long-term consequences included reversal of the relative gains made in the boom years just preceding the crisis. Nominal U.S. dollar GDP per capital fell 42.3% in Indonesia in 1997, 21.2% in Thailand, 19% in Malaysia, 18.5% in South Korea and 12.5% in the Philippines. The CIA World Factbook reported that the per capita income (measured by purchasing power parity) in Thailand declined from \$8,800 to \$8,300 between 1997 and 2005; in Indonesia it increased from \$2,628 to \$3,185; in Malaysia it declined from \$11,100 to \$10,400. Over the same period, world per capita income rose from \$6,500 to \$9,300. Indeed, the CIA's analysis asserted that the economy of Indonesia was still smaller in 2005 than it had been in 1997, suggesting an impact on that country similar to that of the Great Depression. Within East Asia, the bulk of investment and a significant amount of economic weight shifted from Japan and ASEAN to China and India.

The crisis has been intensively analyzed by economists for its breadth, speed, and dynamism; it affected dozens of countries, had a direct impact on the livelihood of millions, happened within the course of a mere few months, and at each stage of the crisis leading economists, in particular the international institutions, seemed a step behind. Perhaps more interesting to economists was the speed with which it ended, leaving most of the developed economies unharmed. These curiosities have prompted an explosion of literature about financial economics and a listing of explanations why the crisis occurred. A number of critiques have been leveled against the conduct of the IMF in the crisis, including one by former World Bank economist Joseph Stiglitz. Politically there were some benefits. In several countries, particularly South Korea and Indonesia, there was renewed push for improved corporate governance. Rampaging inflation weakened the authority of the Suharto regime and led to its toppling in 1998, as well as accelerating East Timor's independence.

**Outside Asia**

After the Asian crisis, international investors were reluctant to lend to developing countries, leading to economic slowdowns in developing countries in many parts of the world. The powerful negative shock also sharply reduced the price of oil, which reached a low of about $11 per barrel towards the end of 1998, causing a financial pinch in OPEC nations and other oil exporters. In response to a severe fall in oil prices, the super majors that emerged in the late 1990s, undertook some major mergers and acquisitions between 1998 and 2002 – often in an effort to improve economies of scale, hedge against oil price volatility, and reduce large cash reserves through reinvestment.

The reduction in oil revenue also contributed to the 1998 Russian financial crisis, which in turn caused Long-Term Capital Management in the United States to collapse after losing $4.6 billion in 4 months. A wider collapse in the financial markets was avoided when Alan Greenspan and the Federal Reserve Bank of New York organized a $3.625 billion bailout. Major emerging economies Brazil and Argentina also fell into crisis in the late 1990s.

The crisis in general was part of a global backlash against the Washington Consensus and institutions such as the IMF and World Bank, which simultaneously became unpopular in developed countries following the rise of the anti-globalization movement in 1999. Four major rounds of world trade talks since the crisis, in Seattle, Doha, Cancún, and Hong Kong, have failed to produce a significant agreement as developing countries have become more assertive, and nations are increasingly turning toward regional or bilateral free trade agreements (FTAs) as an alternative to global institutions.

Many nations learned from this, and quickly built up foreign exchange reserves as a hedge against attacks, including Japan, China, South Korea. Pan Asian currency swaps was introduced in the event of another crisis. However, interestingly enough, such nations as Brazil, Russia, and India as well as most of East Asia began copying the Japanese model of weakening their currencies, restructuring their economies so as to create a current account surplus to build large foreign currency reserves. This has led to an ever-increasing funding for U.S. treasury bonds, allowing or aiding housing (in 2001–2005) and stock asset bubbles (in 1996–2000) to develop in the United States.

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## APPENDIX
## A RUNDOWN OF EVENTS IN THIS GLOBAL ECONOMIC CRISIS

*(Source: http://www.pbs.org/wgbh/pages/frontline/shows/crash/etc/cron.html)*

**May 14, 1997**
Thailand, with the intervention of Singapore, spends billions of dollars of its foreign reserves to defend the Thai baht against speculative attacks.

**July 2, 1997**
Thailand devalues the baht. News of the devaluation drops the value of the baht by as much as 20%--a record low. The Thai government requests "technical assistance" from the International Monetary Fund (IMF).

**July 8, 1997**
Malaysia's central bank intervenes to defend its currency, the ringgit.

**July 11, 1997**
The Philippine peso is devalued.

Indonesia widens its trading band for the rupiah in a move to discourage speculators.

**July 18, 1997**
The IMF announces that it will make more than a billion dollars available to the Philippines to help relieve pressure on the peso. The IMF action is the first use of its

"emergency funding mechanism."

**July 24, 1997**
The Singapore dollar starts a gradual decline.

Malaysian Prime Minister Mahathir Mohamad accuses "rogue speculators" for Southeast Asia's economic upheaval. He later singles out billionaire financier George Soros.

**August 5, 1997**
Thailand agrees to adopt tough economic measures proposed by the IMF in return for a $17 billion loan from the international lender and Asian nations. The Thai government closes 42 ailing finance companies and imposes tax hikes as part of the IMF's insistence on austerity.

**August 14, 1997**
Indonesia abandons the rupiah's trading band and allows the currency to float freely, triggering a plunge in the currency.

**Oct. 8, 1997**
Indonesia asks the IMF and World Bank for help after the rupiah falls more than 30% in two months, despite interventions by the country's central bank to prop up the currency.

**Oct. 23, 1997**
Hong Kong's stock index falls 10.4% after it raises bank lending rates to 300% to fend off speculative attacks on the Hong Kong dollar. The plunge on the Hong Kong Stock Exchange wipes $29.3 billion off the value of stock shares.

The South Korean won begins to weaken.

**Oct. 27, 1997**
Rattled by Asia's currency crisis, the Dow Jones Industrial Average plummets 554 points for its biggest point loss ever. Trading on US stock markets is suspended.

**Oct. 31, 1997**
The IMF agrees to a loan package for Indonesia that eventually swells to $40 billion. In return, the government closes 16 financially insolvent banks and promises other wide-ranging reforms.

The IMF announces that it will delay a $700

ISSN 2348 -3652

million quarterly disbursement to Russia due to the country's lax tax collection.

**Nov. 3, 1997**
Sanyo Securities Co. Ltd., one of Japan's top 10 brokerage firms, goes bankrupt with liabilities of more than $3 billion. It is the first Japanese securities house to go bust since World War II.

**Nov. 17, 1997**
Hokkaido Takushoku Bank Ltd., one of Japan's top 10 banks, collapses under a pile of bad loans.

The Bank of Korea abandons its effort to prop up the value of the won, allowing it to fall below 1000 against the dollar, a record low.

**Nov. 21, 1997**
South Korea requests IMF aid.

**Nov. 22, 1997**
South Korean nationalists criticize the IMF loan request as humiliating. President Kim Young Sam apologies on television to the country for South Korea's economic malaise.

**Nov. 23, 1997**
At the Asia-Pacific Economic Cooperation (APEC) summit in Vancouver, President Clinton describes the Southeast Asian economies as temporarily experiencing a "few glitches in the road."

**Dec. 3, 1997**
The IMF approves a $57 billion bailout package to South Korea, the largest in history. President Bill Clinton earlier urges "tough medicine" for South Korea.

**Dec. 8, 1997**
The Thai government announces that it will close 56 insolvent finance companies as part of the IMF's economic restructuring plan. 30,000 white-collar workers lose their jobs. Michel Camdessus, the IMF's managing director, praises Thailand for "solid progress."

**Dec. 12, 1997**
The IMF restarts its loan disbursement to Russia. The pact releases $700 million delayed in October. In the accord, the IMF urges Russia to boost revenues and cut spending.

ISSN 2348 -3652

**Dec. 18, 1997**
Kim Dae Jung becomes South Korea's first president elected from the country's opposition party. Within days, the South Korean won hits new lows.

**Dec. 23, 1997**
In an unprecedented move, the World Bank releases an emergency loan of $3 billion, part of a $10 billion support package, to South Korea to help salvage its economy.

**Dec. 24, 1997**
Seoul wins an early payment of $10 billion in loans from the IMF and Group of Seven (G-7) to forestall a default on its short-term loan debts. In return for the aid, South Korea agrees to expedite financial reforms and open its domestic financial markets.

**Jan. 7, 1998**
In a speech given in Helsinki, Finland, chief economist of the World Bank, Joseph Stiglitz, breaks with orthodoxy and questions the assumptions and effects of the "Washington Consensus.".

**Jan. 8, 1998**
International creditors agree to a 90-day rollover of South Korea's short-term debt.

The Indonesian rupiah nose-dives to an all-time low after Indonesian President Suharto unveils his state budget plan. Critics say that the unrealistic budget does not comply with the IMF's reform program.

**Jan. 8-9, 1998**
Indonesians clear store shelves of food and staple goods fearing that further currency declines will lead to food shortages.

**Jan. 10, 1998**
Pressured by the IMF to take strong measures against Indonesia's ongoing economic decline, Suharto postpones 15 major government-subsidized projects--a number of them linked to members of the Suharto family--to help cut expenditures and foreign debt.

**Jan. 12, 1998**
Asia's largest private investment bank, the Hong

Kong-based Peregrine Investments, files for liquidation. The company is left badly exposed from its loan investments in Indonesia.

**Jan. 13, 1998**
Students in Jakarta rally to protest against the IMF-imposed policies.

**Jan. 14, 1998**
South Korean labor unions agree to discuss layoffs with businesses and government leaders. Layoffs are a key condition insisted upon by the IMF in exchange for the fund's record $57 billion aid package. IMF chief Michel Camdessus defends the IMF's demand for mass layoffs saying that they are the only way Seoul can restore its financial credibility and draw in foreign investment.

**Jan. 15, 1998**
Suharto signs a new loan deal with the IMF agreeing to eliminate the country's monopolies and state subsidies. Prices for basic food staples increase by as much as 80%. The IMF signing follows a week of the rupiah's free-fall--10,000 to the dollar--which prompts waves of panic buying in Indonesia.

**Jan. 22, 1998**
Officials from South Korea meet with international bankers in New York in an effort to restructure the country's short-term debt.

Indonesia's currency plunges to a new all-time low--12,000 rupiah against the dollar--amid anxiety over Suharto's apparent choice for vice president--Technology Minister Bacharuddin Jusuf Habibie.

**Jan. 28, 1998**
International banks and South Korea agree on a plan to exchange $24 billion of short-term debt for longer-term loans.

**Feb. 6, 1998**
South Korean unions, government and businesses reach a landmark agreement to legalize layoffs. The legislation is ratified by Seoul's National Assembly.

**Feb. 19, 1998**
Camdessus announces that he will extend the

IMF's loan program to Russia by one year. He also says that the IMF will relax the stringent tax-revenue targets that have been used as a criteria for awarding loans to Russia.

**March 9, 1998**
The IMF announces that is delaying a $3 billion installment of its $40 billion loan package to Indonesia, citing Suharto's unwillingness to implement his side of the deal. This prompts a charge from Suharto that the IMF reforms are "unconstitutional."

**March 11, 1998**
Suharto is sworn in for a seventh five-year term as president of Indonesia.

**March 23, 1998**
Russian President Boris Yeltsin abruptly dismisses his entire cabinet, including Prime Minister Viktor Chernomyrdin. Yeltsin appoints Energy Minister Sergei Kirienko as acting premier.

**March 24, 1998**
The US announces that it will send $70 million in food and medical emergency aid to Indonesia, despite the fact that the IMF had suspended its loan package. The US emergency aid is intended to quell the increasing food riots.

**April 8, 1998**
Indonesia and the IMF reach a third pact in six months for a bailout. Both sides make concessions: the IMF withdraws its mandate that the government dismantle its subsidies of food and fuel, Suharto agrees to close more insolvent banks. IMF Deputy Director Stanley Fischer declares "the worst of the crisis is over."

**May 4, 1998**
The IMF resumes a stalled lending program to Indonesia, approving a payment of $1 billion.

**May 5, 1998**
Students in Indonesia hold demonstrations across the country, protesting steep fuel and energy price hikes. Student protests denounce the Suharto administration for its failed economic policies and demand extensive political reforms.

ISSN 2348 -3652

**May 12, 1998**
In Indonesia, troops fire into a peaceful protest at a Jakarta university, killing six students and sparking a week of riots.

**May 19, 1998**
Suharto attempts to assuage student demonstrators by promising early elections. The students reject his proposals. Suharto's key parliamentary allies call for his resignation.

**May 21, 1998**
Suharto resigns after 32 years in power. Vice President Habibie succeeds as president.

**May 22, 1998**
The IMF indefinitely postpones aid disbursement to Indonesia of $1 billion scheduled for June 4. US Treasury Secretary Robert Rubin says the aid should be delayed until the political situation stabilizes.

**May 27, 1998**
Russia's financial system is stretched to the breaking point as panic-striken stock and bond markets continue to plunge, forcing the central bank to triple interest rates to 150% to avert a collapse of the ruble.

**May 27-28, 1998**
A two-day, nation-wide strike is held in South Korea by union workers to protest the growing wave of unemployment in the country. Since February, South Korean companies have been laying off 10,000 workers per day.

**June 1, 1998**
Russia's stock market crashes and Moscow's cash reserves dwindle to $14 billion amid unsuccessful attempts to prop up the ruble and pay off burgeoning debts. President Clinton pledges support for Yeltsin.

**June 12, 1998**
Japan announces that its economy is in a recession for the first time in 23 years.

**June 17, 1998**
The yen's fall to levels near 144 to the dollar rattles Wall Street, prompting the US Treasury and Federal Reserve to intervene to prop up the yen. Japan and the US spend some $6 billion to buy yen in order to strengthen it. Clinton calls on Tokyo to

ISSN 2348 -3652

quickly resolve its banking problems and stimulate the economy.

**June 24, 1998**
Russian Prime Minister Sergei Kirienko submits a budget austerity plan to the IMF, which releases a previously held loan installment of $670 million.

**June 25, 1998**
Indonesia and the IMF announce a fourth agreement to rescue an economy quickly sinking into chaos. The IMF agrees to restore subsidies for food and fuel and provide another $4 billion to $6 billion for basic necessities.

**July 1, 1998**
Russia's lower house of parliament, the Duma, postpones action on spending and tax reforms needed to close the budget deficit and qualify for IMF loans.

**July 6, 1998**
Moscow's markets get pummeled as the government fails to raise cash by selling government shares of a state-owned oil company. Moscow hints that an IMF loan agreement is near.

**July 10, 1998**
President Clinton calls on the IMF to quickly conclude negotiations over emergency loans for Russia after getting a call for help from Boris Yeltsin, sparking a rally in Moscow's markets.

**July 13, 1998**
The IMF announces a package of $23 billion of emergency loans for Russia. The international lender dips into an emergency line of credit to provide its share of financing. Russian stocks and bonds soar.

**July 16, 1998**
Russia's Duma approves some of Yeltsin's $16 billion proposed tax reforms needed to meet conditions for IMF loans. But it rejects higher sales and land taxes.

**July 19, 1998**
Yeltsin vetoes tax cuts approved by parliament and issues decrees imposing a 3% tax on imports and quadrupling land taxes to close the budget deficit and secure IMF loans. He also pledges renewed efforts to

ISSN 2348 -3652

collect taxes.

**July 20, 1998**
The IMF gives final approval to a $22.6 billion loan package to Russia. However, because the Duma fails to enact some of the austerity measures mandated in the loan agreement, the first two planned installments are reduced from $5.6 billion to $4.8 billion.

**July 28, 1998**
The IMF announces that it will ease conditions on its $57 billion aid package to South Korea which had been blamed for rising unemployment and overburdened welfare programs.

**August 3, 1998**
Wall Street reacts to the deepening crisis; the Dow plunges 300 points in its third-biggest loss.

**August 4, 1998**
Amid speculation that China will be forced to devalue its currency, Hong Kong's dollar and stock market come under attack.

**August 6, 1998**
The World Bank approves a $1.5 billion loan for Russia as Moscow puts pressure on striking miners and tax deadbeats in an effort to put its finances in order.

Asian markets plummet as Hong Kong and China step in to defend their currencies against attack.

**August 11, 1998**
The Russian market collapses. Trading on the stock market is temporarily suspended. World markets are rocked by fears of a financial meltdown in Asia and Russia.

**August 13, 1998**
Russia's markets collapse on fears that Moscow will run out of money and default.

**August 14, 1998**
Yeltsin calls for an emergency session of parliament and declares that "there will be no devaluation" of the ruble.

In Hong Kong, authorities spark a stock rally by moving to foil speculators with surprise purchases of stocks and dollars.

**August 17, 1998**

Russia announces a devaluation of the ruble and 90-day moratorium on foreign debt repayment, triggering panic in Moscow as Russians line up to buy dollars. Western leaders denounce the Russian default.

Latin American stock and bond markets plunge on fears of default and devaluation in South America.

**August 19, 1998**
Russia fails to pay its debt on GKO or treasury bills, officially falling into default. The IMF and Group of Seven (G-7) say they won't provide additional loans to Russia until it meets existing promises.

**August 21, 1998**
Russia's economic crisis shakes world markets, bulldozing stocks and bonds in Latin American and reverberating through the US and Europe. Russia's Duma calls for Yeltsin's resignation. Investors pile into US Treasury bonds as a safe haven from the storm, causing yields to drop to record lows.

**August 24, 1998**
Yeltsin dismisses Kirienko and names Viktor Chernomyrdin as primeminister.

**August 31, 1998**
After weeks of decline, Wall Street is overwhelmed by the turmoil in Russia and world markets. The Dow Industrial average plunges 512 points, the second-worst point loss in the Dow's history.

**Sept. 4, 1998**
Federal Reserve Chairman Alan Greenspan says that the US is ready to cut interest rates to keep the crisis from snuffing out US growth. "It is just not credible that the United States can remain an oasis of prosperity," he says.

Latin stocks and bonds plummet.

**Sept. 7 or 8, 1998**
Russia's Duma rejects Prime Minister-designate Chernomyrdin and the central bank chairman resigns, deepening the country's political and economic turmoil. Russian investors and lenders

ISSN 2348 -3652

estimate their losses at $100 billion.

The Dow surges 381 points after Greenspan suggests that policy makers are considering an interest cut.

**Sept. 10, 1998**
The Dow loses 249 points as Brazilian stocks fall 16%, adding to drops that have erased half the Brazil market's value. In Mexico, the Central Bank sells some $50 million in its first attempt to buoy the peso in three years.

Yeltsin nominates Yevgeny Primakov as prime minister.

**Sept. 11, 1998**
The IMF announces that the debacle in Latin American markets is "an overreaction to Russian events" and that it is ready to lend Latin American countries, using an emergency line of credit. Investors flee Brazil, drawing out more than $2 billion a day despite an interest rate rise to 50% by the Central Bank.

**Sept. 17, 1998**
Tokyo's Nikkei index hits a 12-year low amid steep declines in Hong Kong, France, Britain and the US. The Dow drops 216 points. Congress blocks Clinton's request for $18 billion in funding for the IMF.

**Sept. 23, 1998**
Pushed by the New York Federal Reserve, a consortium of leading US financial institutions provides a $3.5 billion bailout to Long Term Capital Management, one of the largest US hedge funds, amidst fears that a collapse could worsen the panic in the financial markets.

**Sept. 24, 1998**
Stocks on Wall Street and in Europe swoon amid fears that the losses suffered by the world's largest banks in the Long Term Capital debacle could put the entire banking system at risk.

**Sept. 29, 1998**
The Fed cuts interest rates by a quarter point.

**Sept. 30, 1998**
Worries that the Fed isn't doing enough to

rescue the US and global economies cause a 238-point drop in the Dow, for a loss of more than 500 points in a week. Investors around the world flock to US Treasury bonds for safety, causing the yield on 30-year bonds to drop below 5% for the first time in three decades.

**Oct. 3, 1998**
Japan announces a $30 billion aid package for Southeast Asia to help the region recover from recession.
G-7 ministers create a rescue plan for Brazil.

**Oct. 5-8, 1998**
In Washington, the IMF and World Bank hold a joint plenary session to debate the global economic crisis.

**Oct. 15, 1998**
The Fed cuts interest rates for a second time to prevent weak financial markets from tripping the US into a recession. The Dow shoots up 331 points and world markets rally.

**Oct. 22, 1998**
Amid warnings of winter food shortages in Russia, Moscow creates an emergency food reserve and approves an emergency spending plan that will require the central bank to print at least $1.2 billion to help pay back wages, rescue banks and bring food to desperate regions.

**Oct. 27, 1998**
Brazil's President Fernando Cardoso announces an austerity plan of $80 billion in tax increases and spending cuts over three years in order to secure an IMF assistance package.

**Oct. 31, 1998**
The IMF refuses to disburse to Russia a $4.3 billion installment of the $22.6 aid package it agreed to in July, and says it will not resume negotiations about disbursement until Russia produces a realistic budget for 1999.

**Nov. 5, 1998**
Russia strikes an agreement with foreign investors to accept repayment in rubles of $40 billion of debt frozen in August, but says it will not be able to repay $17.5 billion of debts due in 1999 and will reschedule them. Russia also wins

an $800 million loan from Japan, originally part of the IMF rescue deal.

**Nov. 6, 1998**
The US agrees to provide 3.1 million tons of food to Russia to help offset Russia's worst grain harvest in 45 years and declining food imports because of the fall of the ruble.

**Nov. 13, 1998**
The IMF, World Bank and leading industrial nations announce a $41.5 billion rescue package for Brazil.

**Nov. 17, 1998**
The Fed, citing "unusual strains" in the credit markets, cuts interest rates for a third time in seven weeks.

**Dec. 2, 1998**
The World Bank projects that the crisis has cut world growth in half, to around 2%, and that unless Japan reverses the decline of its economy, the world could fall into recession in 1999.

Official studies report that 80 million Indonesians--or 40% of the population-- have fallen below the poverty line since the start of the economic crisis.

**Dec. 3, 1998**
In Brazil, the congress rejects a key social security tax increase sought by the IMF, prompting a rout in Brazilian markets and stock sell-offs throughout Latin America and on Wall Street.

**Jan. 15, 1999**
The Brazilian government allows its currency, the real, to float freely on world markets by lifting exchange controls. The move leads to a surge in markets in Latin America and around the globe as investors buy up Brazilian stocks at reduced prices.

**Jan. 27, 1999**
Brazil's central bank raises interest rates in an effort to stabilize the market and to stem capital flight which has reached $200 million to $500 million a day.

**Feb. 2, 1999**
Arminio Fraga, a former portfolio manager to billionaire George Soros, is named president of

ISSN 2348 -3652

Brazil's Central Bank.

**March 25, 1999**
The IMF approves a $1 billion increase in its emergency loan package for Indonesia. The fund also approves the release of a $460 million installment that it had held back due to Indonesia's delay in closing down insolvent banks.

**March 29, 1999**
The Dow Jones Industrial Average closes above the 10,000 level for the first time in its history.

**May 12, 1999**
The Dow Jones Industrial tops 11,000.

# GENERAL ANTI AVOIDANCE RULE (GAAR) - AN INDIAN DETERIORATING ECONOMIC ENVIRONMENT

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## ABSTRACT

*Tax avoidance has been recognized as an area of concern and several countries have expressed concern over tax evasion and avoidance. The main aim of the research paper is to study the general anti avoidance rule regulations and its effect on Indian society. This is also evident from the fact that either nations are legislating the doctrine of general anti-avoidance regulations in their tax code or strengthening their existing code. For this purpose the authors have first defines tax avoidance and tax evasion as prevalent at present in various judicial pronouncements. Further for the purpose of implementation and consequences the authors have thrown light on section 95 – 102 of the finance act, 2012. The paper also attempts to compare the Indian law with other general anti avoidance rule laws of various countries. The authors conclude with the negative note that any avoidance of tax to be declared impermissible would over burden the tax payers. Hence the stringent should be amendment for providing better view.*

**KEYWORDS** *GAAR, Economic environment, tax avoidance, tax evasion, transfer pricing.*

## INTRODUCTION

"Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however, unappreciative the commissioners of inland revenue or his fellow tax gatherers may be of his ingenuity, he cannot be compelled to pay an increased tax."
"it can be very well said that when a person is born there are two things certain which would occur in his life span, one is his death and the other is the burden of tax on that person." Tax is an amount which the government charges on every person in return of service provided by the government. The services may be in terms of infrastructure, security, maintaining rule of law, and many others. The government is accountable for each and every action which he takes, whether it may or may not be in the interest of citizen. The federal structure of our Tax Structure can be very well be depicted in the taxing statutes. The taxes of local nature are levied and collected by the state government and the taxes which involves income from more than one state is been collected by the central government.

Levying and collecting the tax is the right of the government and paying the tax is the duty of the people. It is the general presumption that each and every person liable to pay tax must reasonable pay tax within the provisions of the tax statutes. The person escaping the liability of paying tax which he is legally liable to pay would be termed as tax evasion which would be termed as illegal under the Indian laws. Person lowering his liability to pay the tax under the four corners of the law would not be illegal and would be termed as tax avoidance. But the general anti avoidance rules (general anti avoidance rule) who has been introduced by the finance act, 2014 envisages that any arrangement or planning, which involves any tax benefit, whether directly or indirectly would be an impermissible agreement and any tax benefit from such arrangement would be taxable as per the provisions of the act. This paper highlights the various issues relating to tax avoidance, permissible tax avoidance and also what should be the impermissible tax avoidance. This paper would highlight the various provisions of general anti avoidance rule and also the various judicial pronouncements regarding the taxing nature, comparing the general anti avoidance rule provision of various countries and also the advantages and disadvantages of general anti avoidance rule.

The issue as to whether reduction in tax liability through a transaction or a series of transactions is 'tax planning' or 'tax avoidance' has been the subject matter of debate both in India and overseas for the past several decades. Although, the judiciary has attempted to define the principles for determining tax avoidance, the most recent being the case of Vodafone international holdings b.v. v. Union of India ., however considering the mindset of revenue authorities, the introduction of and the powers prescribed under the proposed anti-avoidance provisions are likely to have significant implications, both positive and negative.

The introduction of general anti avoidance rule regulation recognizes that it may not always be feasible for the judiciary to address the unforeseen implications of transactions carried out for tax purposes and also the need to provide some semblance on the matter of tax avoidance. However, where tax benefit is to be considered as the sole criterion (as is currently recognized under the proposed new code) for determining tax avoidance, such a provision may undermine the common denominator in determination of a tax avoidance scheme, i.e., the principle that though the taxpayer is free to choose the most tax efficient method, the commercial justification for the choice taken and tax consideration (benefit) is not the only reason.

Tax avoidance, like tax evasion, seriously undermines the achievements of the public finance objective of collecting revenues in an efficient, equitable and effective manner. Sectors that provide a greater opportunity for tax avoidance tend to cause distortions in the allocation of resources. Since the better-off sections are more endowed to resort to such practices, tax avoidance also leads to cross-subsidization of the rich. Therefore, there is a strong general presumption in the literature on tax policy that all tax avoidance, like tax evasion, is economically undesirable and inequitable. On considerations of economic efficiency and fiscal justice, a taxpayer should not be allowed to use legal constructions or transactions to violate horizontal equity.

In view of the above, it is necessary and desirable to introduce a general anti avoidance rule which will serve as a deterrent against such practices. This is also consistent with the international trend.

## GENERAL ANTI AVOIDANCE RULE - UNDER THE INDIAN LAW

For the first time in the financial budget given by the finance minister Mr. Arun Jai, the concept of general anti avoidance rule s were introduced in the finance act, 2012 and which has been assented by the president as well. Sections 95 to 102 under chapter x-a of the act deals with the provisions of general anti avoidance rule and is a code in itself.

The chapter has its own definition section which shall be applicable to the provisions of the said chapter. Under section 102 in all 12 words have been defined, out of which two which would be the most useful in understanding the present provisions are

(1) arrangement: "arrangement" means any step in, or a part or whole of, any transaction, operation, scheme, agreement or understanding, whether enforceable or not, and includes the alienation of any property in such transaction, operation, scheme, agreement or understanding;

(2) tax benefit means— (a) a reduction or avoidance or deferral of tax or other amount payable under this act; or (b) an increase in a refund of tax or other amount under this

act; or (c) a reduction or avoidance or deferral of tax or other amount that would be payable under this act, as a result of a tax treaty; or (d) an increase in a refund of tax or other amount under this act as a result of a tax treaty; (e) a reduction in total income including increase in loss, in the relevant previous year or any other previous year.

**THE VIEWS AS RECOMMENDED THAT**

• Providing a healthy framework based on the principal of sound legal jurisprudence to come to a conclusion of abusive transaction. The design of general anti avoidance rule should be by reference to 'business- purpose test' with emphasis on the different concepts of the economic substance associated with the categories of tax avoidance behaviour, such as tax evasion, acceptable tax avoidance and abusive tax avoidance rather than narrow the scope to the aspect of a tax benefit test.

• Incorporate a substance over form rule where a transaction or a series of transactions are entered into to judge the authenticity and purpose of the transaction rather than teleological apply the tax benefit provision, surpassing all other aspects of the transaction. The above mentioned points should also be considered while enacting the general anti avoidance rule provision which would be for the holistic purpose of the society.

**ACCEPTABLE AND UNACCEPTABLE TAX AVOIDANCE**

Every country seeks to tax the income generated within its territory on the basis of one or more connecting factors such as location of the source, residence of the taxable entity, maintenance of a permanent establishment, and so on. A country might choose to emphasise one or the other of the aforesaid factors for exercising fiscal jurisdiction to tax the entity. Depending on which of the factors is considered to be the connecting factor in different countries, the same income of the same entity might become liable to taxation in different countries. This would give rise to harsh consequences and impair economic development. In order to avoid such an anomalous and incongruous situation, the governments of different countries enter into bilateral treaties, conventions or agreements for granting relief against double taxation. Such treaties, conventions or agreements are called double taxation avoidance treaties, conventions or agreements.

Lord Goff explained the meaning of "unacceptable tax avoidance" in ensign tankers and held that unacceptable tax avoidance typically involves the creation of complex artificial structures by which, as though by the wave of a magic wand, the taxpayer conjures out of the air a loss, or a gain, or expenditure, or whatever it may be, which otherwise would never have existed. This, of course, led to further debate as to what is "unacceptable tax avoidance" and "acceptable tax avoidance".

**THE RECOMMENDATIONS OF PARTHASARATHI SHOME COMMITTEE**

The recent report of the expert committee on general anti avoidance rules (general anti avoidance rule) has evoked positive sentiments across the industry. The committee has recommended that general anti avoidance rule should be deferred for 3 years. It has also suggested that income from sale of listed securities should be fully exempt from tax. Investors from Mauritius and Singapore may also look forward to more certainty on entitlement to tax treaty benefits. While the committee's recommendations have largely met investor's expectations, additional clarity is still required on a few aspects regarding the application of general anti avoidance rule in India.

The general anti avoidance rule committee has recognized the right of taxpayers to mitigate taxes through arrangements that are not abusive, contrived or artificial. General anti avoidance rule should therefore be used as a last resort and not a first recourse. As a measure of fairness, it has been proposed that existing investments should be grandfathered.

The committee is in favour of a targeted approach to general anti avoidance rule with abundant safeguards, which is a positive step in addressing investor concerns.

**CONCLUSION**

General anti avoidance rule should only apply to abusive, artificial and contrived arrangements. This qualitative threshold underscores the taxpayer's right to plan his affairs and mitigate taxes. For instance, if a taxpayer has to choose between various economic alternatives available under law, he is justified in choosing that alternative which creates the least tax burden. It substantially shifts the focus of general anti avoidance rule to more complicated tax avoidance strategies and will help ensure objectivity through a targeted approach, which will benefit both taxpayers and the revenue.

General anti avoidance rule should only be invoked in cases where 'the main purpose' (and not 'one of the main purposes') of the arrangement is to obtain tax benefit. The government should issue a negative list of arrangements where general anti avoidance rule cannot be invoked. This would include intra-group transactions, business reconstruction, share buybacks, dividend distribution, choice of funding through debt or equity and setting up of units in special economic zones. General anti avoidance rule cannot be invoked in situations where specific anti avoidance rules (like transfer pricing) are applicable.

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# DELINEATE THE BARRIERS TO PACKAGING METAMORPHOSIS

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## ABSTRACT

*Most executives understand that packaging metamorphosis can add value and drive sales. The challenge, explains by this research paper, is to identify opportunities for metamorphosis—and to measure and convey the business value of metamorphosis. To this end, this research paper identifies research techniques that are effective and articulates a framework for distilling the potential return on packaging metamorphosis.*

**KEYWORDS:** *packaging, metamorphosis, proprietary or ownable packaging structure, storage, flexible sessions,*

## INTRODUCTION

Not all that long ago, a trip to the supermarket revealed aisle upon aisle of identical cans, boxes, bags, and bottles…and a packaging redesign almost inevitably meant a change in labeling graphics, rather than shape, structure, or functionality. However, marketers are now recognizing the power of innovative packaging systems to differentiate brands, justify price premiums, and/or increase brand loyalty.

A proprietary, or "ownable," packaging structure (via unique shapes, materials, and dispensing systems) has become the norm (or even the cost of entry) in many categories—and structural packaging metamorphosis has been the primary driving factor in revitalizing brands and entire product categories, such as children's yogurt. The current energy surrounding packaging metamorphosis represents a wonderful opportunity to differentiate and add value through effective design. However, it also poses some interesting challenges for design professionals most notably that of justifying the significant investments required (in retooling, in higher costs per unit, and so on) for a new packaging system. In this article, I'll share a consumer researcher's perspective on several major issues associated with the development and assessment of new packaging systems, including:

• Identifying opportunities for metamorphosis

• Gathering consumer feedback without "killing" new ideas

• Documenting the business value of new concepts I'll also point out several potential barriers to metamorphosis, which are rooted in the way many companies approach and assess new packaging systems. Finally, I'll discuss how design professionals can bridge the gap between packaging engineers and marketers to help their companies make informed packaging development and investment decisions.

## IDENTIFYING OPPORTUNITIES (THROUGH OBSERVATION)

Of course, there is no single formula for uncovering opportunities and ideas for packaging metamorphosis. However, one important guiding principle is to utilize the power of observation, both in the home and the store. Observation is critical, because consumers cannot consistently visualize and verbalize the "next big idea." In fact, they often fail to mention some problems or limitations with current packaging, because their usage process is so automatic. In other words, they are often on autopilot as they select and use typical household products, and life's minor inconveniences (such as difficulty holding or pouring from a package) are accepted without a second thought. This reality has driven the recent surge in ethnographic research, in which we learn by watching shoppers interact with packages, typically in their home environment. Interestingly, we often find that the primary insights come not from watching people do laundry or make breakfast, but rather from documenting and understanding the full packaging life cycle (from purchase through transport, usage, storage, and ultimately disposal).

Storage is a particularly intriguing area, because of the direct connection between where products are stored and how quickly they are consumed. One case in point is the development of "fridge packs" for beverages, which was driven by the realization that soda that "lived" in the refrigerator would be consumed far more quickly than cases that languished in the pantry or garage. Ethnography can also help identify larger problems or issues that packaging may be able to solve. For example, people have terrible difficulty remembering to take their prescription medications—and easily portable packaging (with reminder systems) may be a large part of the solution.

While many companies are now following their customers into the home, what's often missing is a commensurate effort in the retail environment. Often, by simply watching people at the shelf, we can pinpoint the underlying causes of major problems and identify potential packaging solutions. For example, in categories where the purchase decision is driven by touch or scent, up to 10 percent of packages are regularly opened and discarded, resulting in a tremendous loss in revenue. For obvious reasons, this is an issue that can't be easily or directly discussed with shoppers. However, when we recently watched shoppers at the air freshener category, it became clear that many were opening packaging to get a better "feel" for product dimensions and appearance and reassurance regarding scent. A blister pack (offering greater product visibility) partially addressed these needs, and thus helped to minimize this problem. A second important principle is that of continual measurement.

If there is no data regarding the performance of current packaging, it can be difficult to justify the need for or value of metamorphosis. However, by regularly auditing the contribution of current packaging (to product perceptions, brand imagery, and competitive preference), marketers can identify specific areas of competitive strength or disadvantage. Studies of this nature can justify and guide metamorphosis efforts by identifying specific objectives (enhanced appetite appeal, better communication, improved ease of pouring, and so on). They can also help marketers to think of packaging as an investment and a source of competitive advantage, rather than as a cost center. Finally, we've also found that showing consumers unbranded packaging structures (from other categories and/or countries) can help drive metamorphosis efforts. These structures can push shoppers (and designers) to think beyond the scope of current offerings—and provide an understanding of "how far we can go" in challenging category norms (in terms of delivery systems and visual imagery). They can also identify the power of specific shapes in conveying underlying values (such as heritage, taste, quality, and so on) that may be transferable across categories. For example, in a recent study, we found that that a certain bottle shape conjured up shoppers' memories of old milk bottles and linked to their nostalgia for simpler times in a consistently positive way.

## SIPHONING AND REFINING NEW CONCEPTS (THROUGH QUALITATIVE RESEARCH)

Taking revolutionary new packaging concepts to consumers is a tricky proposition, because the wrong research can provide very misleading answers or kill creativity by destroying new ideas before they have been fully developed and refined. New ideas are often killed by what we call the rush to judgment. When new packaging concepts are first explored and developed, they benefit greatly from several rounds of qualitative research (in-depth discussions with small numbers of target customers).

These flexible sessions (with professional moderators familiar with packaging issues) provide the insight needed to identify and address concerns. Conversely, quantitative research (surveys with hundreds of people) is inherently less diagnostic, because it generates “numbers” that typically lead marketers to declare “winners” and “losers” (and to simply discard the latter). For example, in a recent study, we found that a new structure for liquid soap was strong functionally, but had a shape that suggested a lower-end product. If we had rushed to survey research, this idea would most likely have performed poorly and been rejected. However, the qualitative forum allowed us to pinpoint the source of problem and guide refinements to save the idea. However, given the costs of creating packaging prototypes, marketers are often eager to gather numerical “evidence” before investing further in making prototypes. This often leads them to conduct quantitative surveys very early in the development process, showing two dimensional drawings accompanied by written explanations or even videos illustrating use (how the item opens, dispenses, and so on).

Unfortunately, these approaches rarely produce the same depth of feeling from customers as a functional package—and the findings are often driven by the quality of the description, as opposed to the packaging itself. As a result, quantitative surveys can understate the impact of a new structure. They generate the numbers desired for decision making, but those numbers may be misleading and lead to the wrong decisions. Overall, at the early stages of packaging development, more can be learned from watching 20 people actually hold, use, and discuss a new packaging system than from getting “quick ratings” from 200 people regarding a drawing and concept statement. Perhaps most important, the key is to avoid numbers and ratings until a new idea is fully developed and can be presented in a manner that is as close as possible to how it will be encountered in store and at home—with branding, labeling, and functionality.

However, to accurately gauge the added value of a packaging system, it is important that these studies document all the potential benefits of a new or proprietary structure. In our experience, we’ve seen that a new packaging system can influence shoppers on three levels: increased shelf impact/visibility; enhanced product perceptions and brand imagery (before use); and functionality and satisfaction (after use). Increased Shelf Impact/Visibility A unique packaging approach can be a valuable weapon in the battle for consideration and recognition at the point of sale. The difficulty of breaking through shelf clutter should not be underestimated. Our PRS Eye-Tracking studies have shown that even when shoppers directly consider a category, more than one third of the brands displayed are ignored completely. However, a unique, engaging structure can help ensure that a product consistently draws shoppers’ consideration and drives impulse purchases.

In fact, across multiple studies and product categories, we’ve found that changes in packaging shape and structure have had a stronger positive impact on shelf visibility than changes in graphic design. Enhanced product Perceptions and Brand Imagery (Before use) Time and again, we’ve seen that packaging structures can influence product perceptions and brand imagery. Women’s deodorant packaging provides a good case in point. In a recent study, we found that Dove’s taller, thinner package suggested a more “feminine” and “clean” product than those of competitors packaged in thicker and more uniform packages. In other words, even though it did not provide a rational/functional advantage, it increased the likelihood that shoppers would buy Dove. Other examples include children’s shampoo (in which L’Oreal’s “fish packaging” creates a competitive advantage by embodying fun) and motor oil (in which Quaker State’s clear packaging creates distinctiveness and enhanced perceptions of efficacy). Importantly, these "ownable" structures create differentiation (and justify price premiums) relative to store brands, which may copy graphics, but are often unwilling/unable to invest in structures. Functionality and Satisfaction (After Use) Of course, a new structure that provides functional benefits can also lead to an improved usage experience, increased customer satisfaction, and ultimately stronger brand preference and loyalty.

However, it is important to remember that only people who use the product will experience these benefits. In other words, unless a packaging metamorphosis is clearly visible and/or well communicated, it may not contribute significantly to business value.

To document all these potential sources of value, a research study should:

• Simulate both the shopping and the usage experience (a packaging system can affect initial trial and repeat usage)

• Measure shelf visibility—and impact on product expectations before usage (if the packaging gets lost on the shelf, or if it sends the wrong initial message, it will never get the chance to function)

• Assess new concepts relative to competitive packaging (to justify an investment, a new system must influence choices at the shelf) Asking shoppers to directly compare current and proposed packaging (and provide preferences) will not address all these issues, nor will it provide an accurate sense of the added value of a new packaging system. In fact, this approach is likely to mislead by "forcing a winner" and overstating the differences between the options. The new packaging may be "favored" over existing packaging by 80 percent of the shoppers, but this does not translate directly into more purchases (versus the competition) at the shelf. Ultimately, to measure a new packaging system's business value, we need to document its impact on purchase decisions. For this reason, the single most important principle is to evaluate each new packaging system on a monadic basis, in the context of competitive packaging. In other words, one set of target shoppers (perhaps 100 to 150 category shoppers) should encounter the current packaging on shelf—and be asked to evaluate each brand and make a purchase decision.

A matched set of target shoppers should encounter the new packaging structure in the same shelf set—and go through the identical interview process (evaluating various brands and making purchase decisions). By comparing findings across the different groups (those who saw the current packaging versus those who saw the proposed packaging), a study can document the added value of a new packaging system on shoppers' perceptions and decisions.

In other words, a quantitative survey can isolate and measure the impact of packaging metamorphosis along two measures directly related to business value:

1. The impact on preference versus competition (market share)
2. The ability to justify a higher price point (pricing).

These measures allow marketers to translate functional benefits into an informed estimate regarding the financial impact of a packaging change. Specifically, they allow marketers to answer the primary questions: "If we introduce the new packaging without changing the pricing, will we pick up enough market share to justify the investment?" "Will we be able to pass along the additional few cents per unit associated with this change, without losing any market share?"

Conversely, the most misleading findings come from studies in which marketers attempt to project the added value of a new packaging system by asking people directly how much more they would pay for a particular benefit. Unfortunately, pricing is perhaps the single area in which customers are the least likely to be honest with interviewers. In other words, if you ask a person directly if he or she would pay more for a new and better package, the answer will usually be

"No." However, if you introduce that new packaging system at a slightly higher price, you may well find that people do not notice the pricing difference, or are actually willing to pay more. Fostering Packaging metamorphosis ultimately, metamorphosis is a question of commitment and process.

**CONCLUSION**

The exceptional companies recognize the potential value of proprietary packaging, and they invest the time and resources needed to uncover limitations and identify opportunities (through regular monitoring and ethnographic/observational research). They also invest in properly developing and accessing new concepts in order to ensure that the concepts are given every opportunity to succeed. Perhaps most important, the marketers, designers, and packaging professionals in these companies "speak the same language" through mutually understood research processes and measurement systems. For, if there is one reality in the marketing world, it is: That which is not measured is not fully valued.

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# HUMAN RESOURCE ACCOUNTING PRACTISE IN INDIA

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## ABSTRACT

*The human resource market these days is consisting of very competent, skilled, educated and talented persons. Human resource is the only active factor of production in working of organisation these days and plays important role into successful working of any organisation. Without presence of them nothing is possible to be accomplished. It is their skills, creativity, ability to take decisions as and when required cannot be replaced by machines. Their inefficiency can easily affect the working of an organisation.*

*At all levels and areas of the business or firm human effectiveness is required to be matched with machines productivity. Human beings being creators of machines can work without machine but machines without human being cannot exist, it shall be just like a room filled with toys but without any child to play with them or to break them.*

*The service industries like advertising, direct marketing, banking, insurance, mutual funds, medical, etc. requires more of human talent than any other type of industry. Hence business houses and industrialist have learned to start recognizing and appreciating the value of their employees, their worth and capital investments for their growth and welfare.*

*All this had made firms to start searching for good talented employees and also started investing in their growth and retention techniques as it is right talent which helps in achieving the goals of the company.*

*The article highlights the importance of human resource accounting valuation techniques in order to measure values of human beings as worthy assets of a company, opinions of the various writers, organizations where human resource accounting is implemented and also the benefits of human resource valuation.*

**KEYWORDS:** *Human Resources Accounting, Historical Cost Model, Replacement Cost Model, Opportunity Cost Model, Stochastic Rewards Model, Sk. Chakraborty Model, Lev and Schwartz Compensation Model, Hermanson Model, Morse Model, Human Capital Externality.*

## INTRODUCTION

As all the procedures of an organization are worked by human resource, hence valuation of this resource is very necessary. The information about their valuation should be given to the investors, management and others stake holders of organisation through financial statements.

Human resource accounting is basically an information system that tells management what changes are occurring and required over a period of time for the human resources of the business.

It is from the beginning of early 1990s corporates have started recognizing the value and importance of human assets. This is particularly when service sector started making major participation in the country's economy performance.

The growth of knowledge based industries like Information Technology (IT), Banking, Tele-communications, etc. had led to massive use of human talent as an intangible asset and thus increasing the value of the concern. The human intelligence and intellectual ability of the employees are major resources of these sectors.

In words of Mr. Mohandas Pai, CFO of INFOSYS – ‘Real assets will not appreciate much as businesses get commoditized; Innovation and Intellectual power are going to be the key to the future’.
In words of Mr. Samarat Gupta, MIS Manager, DSQ Software Ltd. – ‘Employees are the most valuable resources of comparison in the services (software, Banking, Management Consultancy, etc) sectors. Like all other resources the company the employees possess value because of providing future services’.
As per woodruff – ‘Human resource accounting is an attempt to identify and report investment made in resources of the organization that are not presently accounted for under conventional accounting practice’.
As per Scott-Jackson et al., 2006 – ‘There is an almost universal belief among business executives, investment managers and other stakeholders that consistent human capital metrics would be valuable. Moreover, investors would take human capital data into consideration if it could be provided on a reliable basis that would enable intelligent comparison’.
As per Flamholtz (1979) - the HRA is a psycho-technical system (PTS) towards organisational measurement. As per the PTS approach there are two functions of measurement are namely;
- Process functions in the process of measurement and
- Numerical information from the numbers themselves.

Professor Sidney Davidson defines human resource accounting as a term used to describe a variety of proposals that seek to report and emphasize the importance of human resources as knowledgeable, trained and loyal employees, in a company’s earnings process and valuation of assets.
American Accounting Association defines it as a process of identifying and measuring data about human resources and communicating this information to interested parties.
According to the E.Flamholtz it is the measurement of the cost and value of people for the organization.
The value being imparted to human beings as assets is long recognised since long ages. Whether we look at Gita, Ramayana or just any ruler who succeeded well, we find importance being assigned to good workers, performers, target achievers, etc.
Even the Mughal Emperor Akbar had nav-ratans i.e. nine jewels liked valuable advisors. India obtained freedom only because of dedicated freedom fighters like Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai Patel, Pandit Jawahar Lal Nehru, etc.
The appropriate work was started to determine the cost and value of human beings by behavioural scientists from 1960 onwards. The experts in this field were Shultz (1960), William Pyle (1967), Flam Holtz (1973), Kenneth Sinclare (1978) and Dr Roa (1983), etc. who contributed suitable methodology and correct methods for finding out the value of the employees of an organization.

**HUMAN RESOURCE ACCOUNTING PRACTICING COMPANIES**

In India Even though, many benefits have contributed by HRA, yet its development and application in different industries has not been encouraging.
The reason for this is that Indian Companies Act 1956 as amended till date does not provide any scope for showing any information about human resources in financial statement.
Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report.
The companies, who are presently reporting human assets valuation are like Bharat heavy Electrical Ltd (BHEL), Steel Authority of India Ltd (SAIL), Oil and Natural Gas Commissioning

(ONGC), Oil India Ltd., Project and Equipment corporation of India (PEC), Engineers India Ltd., Mineral and Metal trading Corporation of India (MMTC), Electrical India Ltd., Hindustan Shipyard Ltd., Cement corporation of India (CCI), Infosys Technologies Ltd., Tata Engineering and Locomotive Works, Southern Petrochemicals Industries Corporation Ltd (SPIC), Associated Cement Company Ltd (ACC) and National Thermal Power Corporation Ltd (NTPC).

## HUMAN RESOURCE VALUATION APPROACHES

Human resources are being given much priority in the present service sector. In order to quantify the talent, skills and knowledge of employees or workforce various models were suggested.
Some of the models to valuation of Human Resources are as stated below.

### Historical Cost Method

This method was developed by William C.Pyle and adopted in 1969 by R.G.Barry Corporation, a leisure footwear company in Columbus, Ohio, USA. Historical cost method calculates actual cost incurred on recruiting, selecting, hiring and training and development of human resource which is equal to the value of workforce. The economic value of human resource increases overtime and they gain experience. However, according to this model, the capital cost of HR decreases through amortization.

### Replacement Cost Model

According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. There are two costs, individual replacement cost and positional replacement cost in this model. Cost of recruiting, selecting, training and development and familiarization cost are account in individual replacement cost. When a employee present position to another or leave the organization cost of moving, vacancy carrying and other relevant costs reflect in individual replacement cost. Positional replacement cost refers to the cost of filling different position in an organization and this model is highly subjective in nature.

### Opportunity Cost Model

Opportunity cost is the maximum alternative earning that is earning if the productive capacity or asset is put to some alternative use. Quantifying human resource value is difficult under this method as alternative use of human resource within the organization is restricted and at the same time the use may not be identifiable in the real industrial environment.

### Stochastic Rewards Model

Stochastic Rewards Model was developed by Eric G.Flamholtz in 1972. This model identified some major variables that are help to determine the value of an individual to the organization. He determined the movement of employees from one organization to another as Stochastic Process. Eric G.Flamholtz suggested different approaches to assess the value of human resource of the company in this model. In order to quantify human resource value the period any employee work in the organization, role of employee and value of present position are determined and discounted expedited service rewards. To be precise an employee value is the product of individual conditional value and the profit that the individual offers to the organization in his/her service life. The conditional value comprises of productivity, transferability and promotion ability, skills and activation levels are also the determinants of an individual conditional value.
According to Flamholtz model, the measure of the value of an individual to an organization is its expected value of achievement. The concept of expected value of achievement is based on the assumption that there is no direct relationship between the cost incurred by an individual and its value to the organization at a particular point in time, defined as the present value of all future services that is expected to provide during the period that remains in the organization. According

to the Flamholtz, since it is impossible to predict with certainty the
expected service of an individual at a given point in time, we use the odds.

Formalizing the model we have:

$$E(S)=\sum_{i=1}^{n} S_i P(S_i) \qquad (2.2.5.-1)$$

$$E(S)=S_1P(S_1)+S_2P(S_2)+S_3P(S_3) \qquad (2.2.5.-2)$$

Where Si represents the amount of service you would expect in each state and P(Si) is the probability of obtained those services.

According to Flamholtz the variables that affect the expected value of a person [E (CV)] are the conditional value of the person (which depends on the person's skills and the level of activity) and the probability of the person remain in the organization (which depends on several variables such as job satisfaction, commitment and motivation).

For Flamholtz, (1999) the [E(CV)] of an individual can be defined as:

$$E(CV)=\sum_{T=\gamma}^{T}\frac{E(CV)_t}{(1+i)^{t-\gamma}}=\sum_{t=\gamma}^{T}\frac{\sum_{j=1}^{m-1} V_{jt}P(V_{jt})}{(1+i)^{t-\gamma}}$$

Where:

$$P(V_{jt})=\frac{P(V_{jt})}{\sum_{j-1}^{m-1} P(V_{jt})} \qquad (2.2.5.-4)$$

$E(C.V.)$ é expected conditional value t;

$V_{jt}$ is the value of the service state j in period t;

$P(V_{jt})$ is the probability of obtaining the value of the service state j in period t, where the odds are transformed as the expression (2.2.5.-4);

$(V_{jt})$ is the probability of obtaining the value of the service state j in period t;

$(1+i)^{t-\gamma}$ is the discount rate, where i= interest rate; t is the time since γ ;

According to Flamholtz (1999) the expected realizable value in period t of an individual can be defined as:

$$E(RV)=\sum_{t=\gamma}^{T}\frac{\sum_{j=1}^{M} V_{jt}P(V_{jt})}{(1+i)^{t-\gamma}} \qquad (2.2.5.-5)$$

Where,

$E(RV)$ is the expected realizable value in period t;

$V_{jt}$ = 0 (m is the exit status).

The main limitations of the model are as follows:

- The model suffers from all the disadvantages inherent in the present value of future earnings models.
- In this model is difficult to obtain reliable data to determine the value obtained by an organization during the period in which an employee occupies a specific position in the organization.
- The model ignores the fact that group work can have greater value to the organization, compared to the work of each member of the group taken individually.
- The application of the model becomes very expensive and time consuming, especially

when trying to predict changes in the career of each employee and the probability of turnover of an employee in the organization.

- The predictions mentioned above may be unreliable, which reduces the usefulness of the model.

**Sk. Chakraborty Model**

Sk. Chakraborty of Indian Institute of Management, Calcutta was the first Indian to attempt at valuation of resources. This model was similar to historical cost model, he noticed the cost of recruiting ,learning, selection, training and development of each employee should considered for acquisition cost method of valuation and be treated as deferred revenue expenditure and thus subject to gradual write off over period of its value. The balance, not the written off amount, should be shown separately in the balance sheet under the head of investment.

To derive the present value of human resource average future tenure of employment of employee`s and average future salary should discounted at an appropriate rate. This is shown as investment in the asset side of balance sheet which is to be added to the capital employed in the liability side. Separate valuation can be made for managerial and non- managerial employees. The Chakraborty model basically considered a combination of acquisition method and present value.

**Lev and Schwartz compensation model**

This model developed in 1971 by Lev and Schwartz for valuing human resources. Lev and Schwartz model is popular for calculating the value of human resource and used by public sector enterprises like SAIL and BHEL.

It is based future earnings of an employee till his retirement. According to the model value of human assets is estimated for a person at a given age which is the present value of his remaining future earning from his employment and this represented by the following.

The model categorized whole work force in the various homogenous groups such as unskilled, semi-skilled, technical staff, managerial staff and so on and also into different age groups. By using the formula calculated average earnings for different classes and age groups and present value of human resource. Lev & Schwartz also recommended the use of cost of capital of the organizations for the purpose of discounting the future earnings of the employees to arrive at the present value. They recognized individual employee economic value to the organization.

In Lev and Schwartz model the formula to calculate the expected value of human capital of an employee is as follows:

$$E(V_{\tau}^{*}) = \sum_{t=\tau}^{T} P_{\tau}(t+1) \sum_{i=\tau}^{t} \frac{I_{i}^{*}}{(1+r)^{t-\tau}}$$

Where,

$E(V_{\tau}^{*})$ = The human capital value of a person with τ years old;

$I_{i}^{*}$ = The person's annual earnings up to retirement. These values are plotted through the profiles of income;

$r$ = Discount rate specific to the person;

$T$ = Retirement age;

$P_{\tau}(t)$ = Conditional probability of an elderly person τ to die in year t.

The value of the organization's human capital is the sum of the values of human capital of all employees working in the organization. However this method does not give the correct value of human capital, and does not measure the contributions of human capital for the pursuit of

organizational effectiveness.
The main disadvantages of this model are as follows:

- This model implies that the employee does not alter his contractual position, and its working condition remains unchanged over time.
- The approach does not consider the possibility of an employee leave the organization before his death or retirement.
- This model does not consider the variable of career management of the worker within the organization.
- This model does not take into consideration the changes in the functions of employees.

**Morse Model**

In 1973 Morse considered that the value of human resources (human assets) of an organization is equal to the current value of the services hired by the organization to its employees, which can be expressed, in a context of certainty, by the following equation:

$$A = \sum_{i=1}^{N} \int_{y}^{T} \frac{I_{i}(t)}{(1+r)^{t-y}} dt + \int_{y}^{T} \frac{X(t)}{(1+r)^{t-y}} dt$$

Where:
A = value of human assets to a formal organization;
N = number of individuals currently employed by the organization;
y = current time;
T = highest time at which an individual currently employed leaves the organization;
It(t)= net value of the services rendered by individual i at time t to the organization,
X (t) = value of the services of all individuals currently employed working together in excess of the value of their individual services at time t;
r = value of money in the period of time.

Morse considers that the first part of equation represents the determination of the value of individuals to the organization and the second part of the equation reflects the additional value of employees to the organization, which depends on the capacity to work as a team.

Morse points out some limitations to the equation presented earlier. Thus, in the context of certainly the equation is not operational. Moreover, since the equation is based on analysis of the organization in the current period (time y) then if the organization hire more employees or make expenditures with the training of employees, the value of human assets (human resource) may change due to changes in I (t) and / or X (t).

**Hermanson Model**

Hermanson was the first author to refer to the Human as assets in 1964. He considers that the Humans assets be highlighted in the balance sheet of the company.

For Hermanson the definition of an asset is inadequate. So it is necessary to find a definition of an asset that considers the resources that are present in the company, but are not necessarily owned by it. Hermanson defined an asset as follows:

'The assets are scarce resources (defined as services but grouped by and relating to agents) operating within the entity, capable of being transferred by the forces in the economy, and expressed in monetary terms that can be acquired as a result of current or past, which apparently has the ability to provide future economic benefits'.

According to Hermanson the main advantages of inclusion of human resources in the financial statements are as follows: increases the comparability and the fullness of financial statements, generating a more efficient allocation of resources in the economy; produces a rejuvenation of the financial position; allows a tighter link between the financial statements; and facilitates the analysis of internal business

**Human Resource Valuation by INFOSYS**

A fundamental dichotomy in accounting practices is between human and non-human capital is considered as assets and reported in the financial statement, whereas human capital is mostly ignored by accountants. The definition of wealth as a source of income inevitably leads to the recognition of human capital as one of the several forms of wealth such as money, securities and physical capital. As standard practice, Infosys reports the value of its employees using the Lev & Schwartz model. We have developed a new model quantify this value, in partnership with GIST Advisory this year. The INFOSYS GIST-HCX model is based on a present value calculation of the increase in future earnings of employees during their employment at Infosys.

Unlike conventional model, it also accounts for the impact of attrition on our human capital value, and therefore also quantifies the value of the positive human capital externality being generated by Infosys.

Human capital externality refers to the benefit derived by society when employees whose human capital value is enhanced due to training and employee development at Infosys, leave the company.

The model discounts future earnings at an appropriate discount rate, and utilizes a long-run inflation rate consistent with the Reserve Bank of India target for inflation expectations

According to this report the worth of each Infosys employee in 2011 is 75 lakhs and as per 2012 it is 84 lakhs.

**FIVE BENEFITS OF HRA**

Human resource accounting helps in knowing whether human asset is being built up in the business or not. An executive may show good result in producing well, and so on but he might not have built the human resources properly. A good manager keeps the morale of his subordinates high so that they contribute the maximum in achieving the organizational objectives.

**Benefits of HRA**

**HRA helps in identifying costs of developing human resources:** HRA will give the cost of developing human resources in the business. This will enable the management to ascertain the cost of labor turnover also.

**HRA helps in judicious and appropriate capital investments in development of human talents:** It can be seen whether the business has made proper investment in human resources in terms of money or not. If the investment is in excess, efforts should be made to control it.

**HRA helps in proper planning and executing of corporate personal policies:** It will help the management in planning and executing personal policies. The management also makes use of its help in taking decisions regarding transfers, promotions, training, retirement and retrenchment of human resources.

**HRA helps in improving overall company employee's efficiency:** It helps in improving the efficiency of employees. The employees come to know of the cost incurred on them and the return given by them in the form of output, and so on, which will motivate them to increase their worth.

**HRA helps in calculating appropriated return on Investment (ROI) for human assets:** The return on investment can realistically be calculated only when the investment on human

ISSN 2348 -3652

resources also is taken into account. The ROI is may be good because there is an investment on human beings.

**CASE STUDY**

In the financial year 1995-96, Infosys Technologies (Infosys) became the first software company to value its human resources in India. The company used the Lev & Schwartz Model (Refer Exhibit I) and valued its human resources assets at Rs 1.86 billion. Infosys had always given utmost importance to the role of employees in contributing to the company's success. Analysts felt that human resources accounting (HRA) was a step further in Infosys' focus on its employees. Narayana Murthy (Murthy), the then chairman and managing director of Infosys, said: "Comparing this figure over the years will tell us whether the value of our human resources is appreciating or not. For a knowledge intensive company like ours, that is vital information."

The concept of HRA was not new in India. HRA was pioneered by public sector companies like Bharat Heavy Electronics Ltd. (BHEL) and Steel Authority of India Ltd. (SAIL) way back in the 1970s. However, the concept did not gain much popularity and acceptance during that time.

**HRA INFORMATION DISCLOSED BY SOME OF THE COMPANIES**

| Name of the organization | HRA introduced in the year | Model | Discount rate (in %) |
|---|---|---|---|
| BHEL | 1973-74 | Lev & Schwartz model | 12 |
| SAIL | 1983 – 84 | Lev & Schwartz model with Some refinements as suggested by Eric.G. Flamholtz& Jaggi and Lev | 14 |
| MMTC | 1982 – 83 | Lev & Schwartz model | 12 |
| ONGC | 1981-82 | Lev & Schwartz model | 12.25 |
| NTPC | 1984-85 | Lev & Schwartz model | 12 |
| INFOSYS | 1995-96 | Lev & Schwartz model | 12.96 |
| | 2006-07 | Lev & Schwartz model | 14.97 |

(Source: http://thecommercepedia.blogspot.in/2012/05/case-study-on-human-resource-accounting.html)

It was only in the mid-1990s, after Infosys started valuing its employees, that the concept gained popularity in India. By 2002, HR accounting had been introduced by leading software companies like Satyam Computers and DSQ Software, as well as leading manufacturing firms like Reliance Industries.

HR managers were quick to respond on the above developments by stating that more and more organizations had now started to realize the importance of skilled workforce. They felt that to be successful in highly competitive markets, companies require to continuously improve the level of performance of their workforce.

HRA enabled companies to understand whether the skill sets of their human capital was appreciating or not. R. Krishnaswamy, an actuarial accountant, said, "The value can be used internally by an organization to make comparisons from unit to unit, from year to year, as well as within its industry."

Stock market analysts felt that the 'comprehensive disclosure policy' was becoming a differentiating factor among companies in various industries. Yezdi H. Malegam, managing director, S.B. Billimoria & Company commented, "In the last few years, people are realizing that their intangible assets are worth much more than their tangible ones. Now an attempt is being made to put a value to these intangibles, and to bring these hidden values to book."

Analysts felt that HRA was an investor-friendly disclosure, and assured stakeholders that the company had the right human capital to meet its future business requirements.
The assets of an organization could be broadly classified into tangible and intangible assets. Tangible assets referred to all the physical assets which could be presented in the balance sheet including plant and machinery, investments in securities, inventories, cash, cash equivalents and bank balance, marketable securities, accounts and notes receivables, finance receivables, equipment on operating leases, etc.
Intangible assets included the goodwill, brand value and human assets of a company. The human assets involved the capabilities, knowledge, skills and talents of employees in an organization.
In the past, less importance was given by organizations to value their human assets. Moreover, it was also considered difficult to value them since there were no defined parameters of valuation. Companies did not value human resources as these were never treated as an asset in the past. All investments related to employees, including salary as well as recruitment and training costs were considered as expenditures.
In addition, accountants also felt that the stakeholders of a company may not accept the concept of placing a monetary value on human resources.
The importance and value of human assets started to be recognized in the early 1990s when there was a major increase in employment in firms in service, technology and other knowledge-based sectors3. In the firms in these sectors, the intangible assets, especially human resources, contributed significantly to the building of shareholder value. The critical success factor for any knowledge-based company was its skilled and intellectual workforce.
Infosys' HRA model was based on the present value of the employees' future earnings with the following assumptions:
• An employee's salary package included all benefits, whether direct or otherwise, earned both in India and in a foreign nation.
• The additional earnings on the basis of age and group were also taken into account.
To calculate the value of its human assets in 1995-96, all the 1,172 employees of Infosys were divided into five groups, based on their average age. Each group's average compensation was calculated. Infosys also calculated the compensation of each employee at retirement by using an average rate of increment.
The benefits of adopting HRA were manifold. It helped an organization to take managerial decisions based on the availability and the necessity of human resources. When the human resources were quantified, it gave the investors and other clients true insights into the organization and its future potential. Proper valuation of human resources helped organizations to eliminate the negative effects of redundant labor.
This, in turn, helped them to channelize the available skills, talents, knowledge and experience of their employees more efficiently. By adopting and implementing HRA in an organization, the following important information could be obtained:
• Cost per employee
• Human capital investment ratio
• The amount of wealth created by each employee
• The profit created by each employee
• The ratio of salary paid to the total revenue generated
• Average salary of each employee
• Employee absenteeism rates
• Employee turnover rate and retention rate

ISSN 2348 -3652

Infosys have used the Lev & Schwartz model to compute the value of human resources. The evaluation is based on the present value of future earnings of employees and on the following assumptions:

a) Employee compensation includes all direct and indirect benefits earned both in India and overseas.

b) The incremental earnings based on group / age have been considered

c) The future earnings have been discounted at the cost of capital of 10.60% (previous year – 12.18%).

**The table showing the value of human resource in Infosys**

**(** in Rs. crore, unless stated otherwise)

| | 2010 | 2009 |
|---|---|---|
| **Employees (no.)** | | |
| **Software professionals** | 1,06,864 | 97,349 |
| **Support** | 6,932 | 7,501 |
| **Total** | 1,13,796 | 1,04,850 |
| **Value of human resources** | | |
| **Software professionals** | 1,06,173 | 95,600 |
| **Support** | 7,114 | 6,533 |
| **Total** | 1,13,287 | 1,02,133 |
| **Total income** | 22,742 | 21,693 |
| **Total employee cost** | 12,085 | 11,405 |
| **Value-added** | 20,937 | 19,073 |
| **Net profits excluding exceptional items** | 6,218 | 5,988 |
| **Ratios** | | |
| **Value of human resources per employee** | 1.0 | 0.97 |
| **Total income / human resources value (ratio)** | 0.20 | 0.21 |
| **Employee cost / human resources value (%)** | 10.7 | 11.2 |
| **Value-added / human resources value (ratio)** | 0.18 | 0.19 |
| **Return on human resources value (%)** | 5.5 | 5.9 |

(Source: http://thecommercepedia.blogspot.in/2012/05/case-study-on-human-resource-accounting.html)

*Notes*

- *The figures above are based on IFRS financial statements.*
- *This Balance Sheet is provided for the purpose of information only. We accept no responsibility for any direct, indirect or consequential losses or damages suffered by any person relying on the same.*

The benefits of adopting HRA were manifold. It helped an organization to take managerial decisions based on the availability and the necessity of human resources. When the human resources were quantified, it gave the investors and other clients' true insights into the organization and its future potential. Proper valuation of human resources helped organizations to eliminate the negative effects of redundant labour. By adopting and implementing Human Resource Accounting in the Organization,

- Infosys could determine whether its human asset was appreciating over the years or not. This information was important for the company as its success depended solely on the knowledge of the employees.
- The company could also use this information internally to compare the performance and productivity of employees in various departments.
- HRA also helped Infosys to decide the compensation of employees. The company ensured that it compensated each employee according to his / her net worth.
- HRA also helped Infosys in indentifying and retaining valuable employees.
- It helped organization to take managerial decisions based on the availability and the necessity of human resources.
- When human resources get quantified it gave Infosys investors and other clients true insights into the organization and its future potential. It restored faith amongst shareholders.
- BY adopting HRS the following information could be obtained:
    - Cost per employee
    - Human capital investment ratio
    - The amount of wealth created by each employee
    - The profit created by each employee.
    - The ratio of salary paid to the total revenue generated.

To sum up, HRA in Infosys helped in identifying the right person for the right job, based on the person's specialized skills, knowledge, capabilities experience, etc.

**CONCLUSION**

It appears that to many Indian organisations valuation of human assets appears to be tricky issue. In fact most organizations do not value their human resources and neither set plans at early stage to carry out valuation of human resources as assets. Despite prevalence of interest over valuation of human assets there has been a very slight advancement in the area in last one decade or so. In order to have more advancement, additional steps are required to be implemented at both the theoretical and implementation levels. More searches into valuation methods and models, their practical implications, are required along with judicious mix of both human resources professionals and accounting professionals with respect to their valuations processes and strategic implementation in real business life.

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# PARADIGM REFORM IN INDIRECT TAX CODE IN INDIA: A WAY FORWARD OF EGALITARIAN SOCIAL ORDER

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## ABSTRACT

*India has witnessed substantial reforms in indirect taxes over the past two decades. The INDIRECT TAX CODE is one of the biggest indirect taxation reforms in India, the decision on which is pending in Parliament since March 2011but manifest focus of union budget 2015 is on reform in Indirect Tax Code. The central idea behind this form of taxation is to replace existing levies like value-added tax, excise duty, service tax, and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. INDIRECT TAX CODE is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points. This paper presents the background, silent features and the impact of INDIRECT TAX CODE in the present tax scenario in India.*

**KEY WORDS** *Goods and Service Tax, INDIRECT TAX CODE, VAT.*

## INTRODUCTION

Tax policies of a country play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also generate tax revenues to support government expenditure on public services and infrastructure development. The framework of value added tax (VAT), recognized as INDIRECT TAX CODE as well in several countries, has been one of the major development in taxation structures worldwide. More than 135 countries adopted the INDIRECT TAX CODE VAT framework effectively. Indian economy is getting more and more globalised. Introduction of an integrated Indirect Tax Code(INDIRECT TAX CODE) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. The implementation of INDIRECT TAX CODE would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. According to a report by the National Council of Applied Economic Research, INDIRECT TAX CODE is expected to increase economic growth by 0.9 percent to 1.7 percent and Exports are expected to increase by 3.2 percent to 6.3 percent as it is also a manifest focus of union budget 2015.

## OBJECTIVES OF THE STUDY

The study has been geared towards achieving the following objectives:

1) To understand the concept of Indirect Tax Code;
2) To know the benefit of Indirect Tax Code to economy, business and industry and consumer;
3) To examine the features of Indirect Tax Code; and
4) To provide information for future research works on Indirect Tax Code.

## RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Analyzing into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study.

**LITERATURE REVIEW**

Girish Garg, (2014) Studied "Basic Concept and Feature of Indirect Tax Code in India", and found that INDIRECT TAX CODE is the most logical steps towards the comprehensive indirect tax reform in our country since independence. INDIRECT TAX CODE will create a single, unified Indian market to make the economy stronger. Experts say that INDIRECT TAX CODE is likely to improve tax collections and Boost Indian economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under INDIRECT TAX CODE, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions. Dr. R. Vasanthagopal, (2015) Studied "INDIRECT TAX CODE in India: A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the INDIRECT TAX CODE, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a „flawless INDIRECT TAX CODE would be a big leap in the indirect taxation system and also give a new impetus to Indian economic change. It is also noted that, buoyed by the success of INDIRECT TAX CODE, more than 140 countries have introduced INDIRECT TAX CODE in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

**WHAT IS THE INDIRECT TAX CODE**

It is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, INDIRECT TAX CODE may be defined as a tax on goods and services, which is livable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption.

**INDIRECT TAX CODE IN INDIA**

The introduction of INDIRECT TAX CODE in India is not an entirely new initiative, but it is to rectify certain basic implementation shortcomings of VAT. So, this is an attempt to improve the existing VAT system further and also the tax system of India. VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the shortcomings associated with the earlier Sales Tax. The States have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State This is the foundation of INDIRECT TAX CODE. People must get used to the idea of an INDIRECT TAX CODE. We must progressively converge the service tax rate and Central Value Added Tax (CENVAT) rate.

In order to take the INDIRECT TAX CODE related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in May 2007 to prepare an INDIRECT TAX CODE module. In November 19, 2007, Joint Working Group submitted its report to the Empowered committee. The report was discussed in detail in November 28, 2007 in the meeting of the Empowered committee. An important interaction also took place between Shri Arun Jaitley, the Union Finance Minister and the Empowered Committee in October 19, 2014, on the related issue of compensation for loss of the States on account of phasing out of CST. The main thread running through the indirect tax proposals in the Budget is promotion of the Make-in-India initiative of the government. This objective is reflected in the reaffirmation of the Goods and Services Tax (GST) implementation in April 2016 and correction of the anomalies plaguing the manufacturing sector.

The government has responded to several of the industry demands, but only partially. The Budget reaffirms the GST implementation date of April 2016, but does not provide any details of its design or the roadmap for its implementation. Given that it is a joint initiative of the Centre and the states, the design can be decided only by the GST Council to be formed after the ratification of the Constitutional amendment.

GST implementation from April 2016, however, remains a challenge. A lot of preparation is needed to meet the deadline. First, the Constitution Amendment Bill will have to be ratified by both Parliament and the state assemblies. Following this, the GST Council will be formed and the GST law would need to be enacted by both levels of the government. The challenge of designing the IT infrastructure for its administration is equally daunting.

**KEY FEATURES OF THE INDIRECT TAX CODE**

• The INDIRECT TAX CODE would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of INDIRECT TAX CODE. • INDIRECT TAX CODE will be paid to the accounts of the Centre (Central INDIRECT TAX CODE) and the States (State INDIRECT TAX CODE) separately, rates for which would be prescribed appropriately, reflecting revenue considerations and acceptability. • Since the Central INDIRECT TAX CODE and State INDIRECT TAX CODE are to be treated individually, taxes paid against the Central INDIRECT TAX CODE shall be allowed to payment of Central INDIRECT TAX CODE. • The INDIRECT TAX CODE will be levied on import of goods and services into the country. • The taxpayer would need to submit common format for periodical returns, to both the concerned Central and State INDIRECT TAX CODE authorities.

Source: Empowered Committee of Finance Ministers (2015).

**TAXES TO BE CONSIDERED**

The various Central, State and Local levies were examined to identify their possibility of being subsumed under INDIRECT TAX CODE. Central and State indirect taxes and levies listed below would be subsumed under the proposed INDIRECT TAX CODE: 10 Central tax and levies to be subsumed: 1) Central Excise Duty; 2) Additional Excise Duties 3) The excise Duty levied under the Medicinal and Toiletries Preparation Act; 4) Service Tax; 5) Additional Customs Duty, commonly known as Countervailing Duty (CVD); 6) Special Additional Duty of Customs – 4% (SAD); 7) Surcharges; and 8) Cesses. State taxes and levies to be subsumed: 1) VAT/Sales tax; 2) Entertainment tax (unless it is levied by the local bodies); 3) Luxury tax; 4) Taxes on lottery, betting and gambling; 5) State Cesses and Surcharges in so far as they relate to supply of goods and services; 6) Entry tax not in lieu of Octroi.

**INDIRECT TAX CODE ON EXPORT AND IMPORT**

 Exports will not be subject to INDIRECT TAX CODE.

 Both Central Goods and Service Tax (INDIRECT TAX CODE) and State Goods and Service Tax (INDIRECT TAX CODE) will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of INDIRECT TAX CODE will accrue to the State where the imported goods and services are consumed. Full and complete set-off i.e. Input Tax Credit will be available on the INDIRECT TAX CODE paid on import on goods and services.

**WHY INDIRECT TAX CODE IS EVITABLE IN INDIA**

 INDIRECT TAX CODE will widen the tax base, improve tax compliance, remove existing unhealthy competition among states and re-distribute the burden of taxation equitably among manufacturing and services; • INDIRECT TAX CODE will ensure the uniformity of taxes across the states, regardless of place of manufacture or distribution; • INDIRECT TAX CODE would integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services which will lead to reduced cost of goods and services. • INDIRECT TAX CODE environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collections also. • The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market and give boost to Indian exports; • It will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services; • Overall, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion difficult.

**FUNCTIONALISM OF INDIRECT TAX CODE**

For business and industry • Easy compliance • Removal of cascading • Improved competitiveness For Central and State Governments • Simple and easy to administer • Better controls on leakage • Consolidation of tax base • Higher revenue efficiency For the consumer • Single and Transparent tax proportionate to the value of goods and services

In INDIRECT TAX CODE, all Indirect taxes such as excise duty, octroi, central sales tax (CST) and value added tax (VAT) etc. will be subsumed under a single regime. Introduction of The Indirect Tax Code (INDIRECT TAX CODE) will be a significant step towards a comprehensive indirect tax reform in the country. It is expected to bring about efficiency and transparency in the indirect tax mechanism in India. Further it will also encourage an unbiased tax structure that is neutral to business processes and geographical locations. Given the enormity of the implication of INDIRECT TAX CODE, it requires a consensus among all political parties and states. However the implementation of INDIRECT TAX CODE has been delayed several times on account of lack of consensus among the States and Centre on aspects relating to limiting fiscal autonomy of the States. History has proved that many countries have benefited from moving to a INDIRECT TAX CODE regime. In India, Implementation of INDIRECT TAX CODE would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

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# PRADHAN MANTRI JAN DHAN YOJANA: AN INGENIOUS TOOL TO INSCRIBE PECUNIARY EXCLUSION

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## ABSTRACT

*One of the biggest developments by the NDA government is first social welfare Scheme i.e. "Pradhan Mantri Jan Dhan Yojana (PMJDY)". It is a scheme for comprehensive addressing Pecuniary Exclusion launched by the Prime Minister of India, Mr. Narendra Modi on 28 August 2014.He had announced this scheme on his first Independence Day speech on 15 August 2014.This scheme is based on "Sab ka sath sab ka vikas" i.e. inclusive growth. The main objective of this scheme is to ensure universal access to banking facilities with at least one basic bank account for every household. It was reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totaling more than 5000 crore Rupees (approx 1 billion USD) as of November 6, 2014.This research study includes addressing Pecuniary Exclusion, mission, strategy of the scheme etc. It also includes issues related to success of scheme.*

**KEYWORDS:** *Pradhan Mantri Jan Dhan Yojana, Pecuniary Exclusion, No frill Account.*

## INTRODUCTION

'Pradhan Mantri Jan-Dhan Yojana' was announced by Honorable Prime Minister, 'Mr. Narendra Modi', in his first Independence Day address on 15 August, 2014. This is a National Mission on Addressing Pecuniary Exclusion includes integrated approach to bring about complete addressing Pecuniary Exclusion of all the households in the country. The name Jan Dhan was chosen through an online competition on the My Union Platform. Slogan of this scheme is "Mera Khata – Bhagya Vidhata." The prime objective of this scheme was 60,000 camps were conducted and about 1 crore bank accounts were targeted to be opened in one day. More than targeted objective is attained in a day. On the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme across the country, the largest such exercise on a single day possibly anywhere in the world. By September 2014, 3.02 crore accounts were opened, with an amount of around 1500 crore (US$240 million) was deposited under the scheme. 74 % accounts opened are No frill account under this scheme. The scheme has an option for opening new bank account with zero balance and in addition it gives facility of accidental insurance of Rs. 1.00 lakh and also regular life insurance of Rs. 30,000/ The additional benefit that Union has announced is overdrawn facility of Rs. 5000/ applicable after 6 months of successful operating of the account.

SBI, India's largest bank had opened 11,300 camps for Jan Dhan Yojana and over 30 lakhs accounts are opened so far, which include 21.16 lakh accounts in rural areas and 8.8 lakh accounts in urban areas. followed by Punjab National Bank with 20.24 lakh accounts, Canara Bank 16.21 lakh accounts, Central Bank of India 15.98 lakh accounts and Bank of Baroda with 14.22 lakh accounts. It was reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totaling more than 5000 crore Rupees (approx 1 billion USD) as of November 6, 2014.

## LITERATURE REVIEW

Research Paper on, "Addressing Pecuniary Exclusion in Gujarat: A Study on Banker's Initiatives" by Mr. Nanjibhai D. Ranparia includes study of various addressing Pecuniary

ISSN 2348 -3652

Exclusion and to evaluate progress and current status of addressing Pecuniary Exclusion of the state.

Research Paper on, “An Analytical Study: Relevance of Addressing Pecuniary Exclusion For Developing Nations” by Dr. Anupama Sharma and Ms. Sumita Kukreja, The study focuses on the role of addressing Pecuniary Exclusion, in strengthening the India’s position in relation to other countries economy. For analyzing such facts data for the study has been gathered through secondary sources including report of RBI, NABARD, books on addressing Pecuniary Exclusion and other articles written by eminent authors.

Research Paper on, “Overview of Addressing Pecuniary Exclusion in India”, by C. Paramasivan and V. Ganeshkumar, Addressing Pecuniary Exclusion is aimed at providing banking and pecuniary services to all people in a fair, transparent and equitable manner at affordable cost. This paper is an attempt to discuss the overview of addressing Pecuniary Exclusion in India.

## OBJECTIVES

- To Study Addressing Pecuniary Exclusion in India.
- To know implications of Pradhan Mantri Jan Dhan Yojana.
- To understand Threats for success of Pradhan Mantri Jan Dhan Yojana.

## ADDRESSING PECUNIARY EXCLUSION BEFORE PMJDY

In India, addressing Pecuniary Exclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. KYC Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000.

In order to ensure addressing Pecuniary Exclusion various initiatives were taken up by RBI like Nationalization of Banks, Expansion of Banks branch network, Establishment & expansion of Cooperative and RRBs, Introduction of PS lending, Lead Bank Scheme, Formation of SHGs and State specific approach for Unionsponsored schemes to be evolved by SLBC ( State Level Bankers Committee) etc.

General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. RBI in the year January 2006, with the objective of ensuring greater addressing Pecuniary Exclusion and increasing the outreach of the banking sector, decided in public interest to enable the banks to use the services of NGOs/SHGs, MFIs and other Civil Society Organizations as intermediaries in providing pecuniary and banking services through use of “Business Facilitator and Business Correspondent Model”.

Census 2011 estimated that out of 24.67 crore households in the country, 14.48 crore (58.7%) households had access to banking services. Of the 16.78 crore rural households, 9.14 crore (54.46%) were availing banking services. Of the 7.89 crore urban households, 5.34 crore (67.68%) households were availing banking services. In the year 2011, Banks covered 74,351 villages, with population more than 2,000 (as per 2001 census) with banking facilities under the “Swabhimaan” campaign with Business Correspondents. However the program had a very limited reach and impact. Public Sector Banks (PSBs) including RRBs have estimated that by 31.05.2014, out of the 13.14 crore rural households which were allocated to them for coverage, about 7.22 crore households have been covered (5.94 crore uncovered). It is estimated that 6 Crore households in rural and 1.5 Crore in urban area needs to be covered.

## IMPLEMENTATION OF SCHEME

Under the scheme, account holders will be provided zerobalance bank account with RuPay debit card and in addition an accidental insurance cover of Rs 1 lakh. Those who open accounts by

January 26, 2015 over and above the Rs1 lakh accident, they will be given life insurance cover of Rs 30,000.
Six months of opening of the bank account, holders can avail Rs 5,000 overdraft facility . With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.
The PMJDY can be executed by mission mode, evisage affordable pecuniary services to all citizens. It comprises six pillars:
Universal access to banking facility: First aim of remove untouchability in pecuniary sector. District will be divided into sub service area catering to 1000 to 1500 household for access to basic banking facility by 14 august 2015.
Providing Basic Banking Accounts with overdraft facility and RuPay Debit card to all households: The effort would be to first cover all uncovered households with banking facilities by August, 2015, by opening basic bank accounts. Account holder would be provided a RuPay Debit Card. Facility of an overdraft to every basic banking account holder would be considered after satisfactory operation / credit history of six months.
**Pecuniary Literacy Program**: Pecuniary literacy would be an integral part of the Mission in order to let the beneficiaries make best use of the pecuniary services being made available to them.
**Creation of Credit Guarantee Fund**: Creation of a Credit Guarantee Fund would be to cover the defaults in overdraft accounts.
**Micro Insurance:** To provide micro- insurance to all willing and eligible persons by 14 August, 2018, and then on an ongoing basis.
Unorganized sector Pension schemes like **Swavalamban**: By 14 August, 2018 and then on an ongoing basis.
Under the mission, the first three pillars would be given trust in the first year.

**PMJDY WILL BE IMPLEMENTED IN TWO PHASES**

***Phase I (15 Aug 2014 to 14 Aug 2015)***

Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of Rs. 1 lakh. Aadhaar number will be seeded to make account ready for DBT payment.

***Phase II (15 Aug, 2015 - 14 Aug, 2018)***

Overdraft facility up to Rs.5000 after six months of satisfactory operation. Creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to Rs.5,000/-. Micro Insurance Unorganized sector Pension schemes like Swavalamban In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the Households and students.

**STRATEGY FOR ACHIEVING OBJECTIVES**

Reaching out - Network expansion and geographical coverage of the banks: First basic pillar of PMJDY is expansion of banking network of country to reach out to the pecuniary excluded segment. All the 6 lakhs villages across the entire country are to be mapped according to service area of each bank to have one fixed point called Sub Service Area.
Individuals like unemployed youth & entities like retired bank employee, retired teachers, retired Government / Military personnel, etc., kirana shops, PDS, PCOs, CSCs, NGOs/MFIs and section 25 companies, Self Help Groups (SHG), Civil Society Organizations, agents of small saving schemes of Government of India, individual petrol pump owner, authorized functionaries of

SHG, non-deposit taking NBFCs, Post Offices / Postman / Gramin Dak Sewak, cooperative societies or other eligible individuals/entities allowed by RBI from time to time may be engaged as Bank Mitra (Business Correspondent)

The Bank Mitra (Business Correspondent) outlets (in both rural and urban areas) would be fully equipped with the required infrastructure including the computers and other peripherals like Micro ATM, Bio-metric scanners, Printer, Web cam and internet connectivity.

Through USSD mobile banking services like Balance Inquiry, Mini Statement and Fund transfer will be provided. NPCI to provide Gateway for all the banks with single short code -*99#.

Opening of Basic Saving Bank Account of every adult citizen. The second pillar of this plan envisages providing basic bank accounts (Basic Saving Bank Deposit Account - BSBDA with zero balance) to all adult citizens starting with coverage of all households.

Pecuniary Literacy and Credit Counseling (FLCC) – Establishing adequate number of Pecuniary Literacy Centers (FLC) & Mechanism to increase pecuniary literacy among the pecuniaryly excluded sections.

Credit Guarantee Fund: The fourth pillar of this plan is the creation of a Credit Guarantee Fund. It is proposed to be housed in National Credit Guarantee Corporation (NCGC).

There is wide scope in further development of the scheme.

Chairman of IRDA T.S. Vijayan said, that government should launch scheme Jan Bima Yojana in lines of similar programmed launched in banking sector.

The scheme can be linked to Swachta Abhiyan. For construction of toilets in rural area finance can be provide under JDY.

This can be help to boost previous scheme under addressing Pecuniary Exclusion such as Micro finance, SHG, for working towards positive development.

It could help to build small businesses in rural area and creating job opportunity in banking sector.

**THREATS**

There is big possibility of opening account under JDY from those who have account already. There is no check on the new account holder.

Regarding debit card implementation there may be slow roll out, logistics issue and possibility of misuse.

In rural area network of ATM is less so people are not well verged with use of ATM.

No clarity if existing account holders would get Rupees one lakh accidental insurance coverage.

It is also not cleared who is going to bear bill of insurance premium and cost to keep account running.

Even the cost of overdraft facility, and thereafter non recovery, no clarity that is bearing loss.

Creating new account is not a challenge but increasing transaction per account is a challenge.

Existing saving accounts without RuPay card not to get other benefits

**CONCLUSIONS**

Every new thing to implement in large scale requires determination and attitude towards success path. Very well said, root cause is ‘pecuniary untouchability’ to eradicate poverty. Managing a bank account and insurance coverage does not demand the person should be educated, it only required the basic knowledge which could be explained by anybody else. Addressing Pecuniary Exclusion requires sustained efforts over many years and emphasis on quality rather than quantity should be the priority. Government should review the speed at which it is currently targeting to achieve the goal of covering the whole India with bank accounts. Certainly with a firm intent and infrastructural network of institutions the dream of pecuniary services for all can be realized in the near future. A bold step in indeed required to withstand the heat of economic down surge and fight poverty, and the Jan Dhan Yojana is definitely a good fighting mechanism to check the poverty.

ISSN 2348 -3652

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ISSN 2348 -3652

# MARKETING METAMORPHOSIS: CREATION OF END USER BASE

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## ABSTRACT

*Recently, one of my ideologies went through a rapid paradigm shift, but nearly imperceptible phase change. It went from being a "metamorphosis-first" project to being a "marketing-first" project. The marketing hat feels at once comfortable and uncomfortable, familiar and unfamiliar. It feels like listening to unfamiliar lyrics set to familiar tunes. This disconcerting feeling of being caught up in the dance of a yin-yang pair has had I pondering the best-known Drucker quote.*

*"Because the purpose of business is to create an end user, the business enterprise has two — and only two — basic functions: marketing and metamorphosis."*

*Marketing and metamorphosis define each other in yin-yang ways. Thinking about the fundamentals of this dual pair of concepts led me to a curious definition of the most important word in business: end user.*

**KEYWORDS:** *Marketing, metamorphosis, end user, filtration, marketing innovations, marketing funnel,*

## INTRODUCTION

The Yin-Yang Evidence: Let me first treat you to two lists of weird symmetries and similarities between marketing and metamorphosis, in the Lincoln-Kennedy-assassination similarities mode. I want to convince you there is a pattern here and, unlike the Lincoln-Kennedy stuff, that there is a reason for the pattern. Let's start with the similarities, and then look at the polarities.

***Similarities***

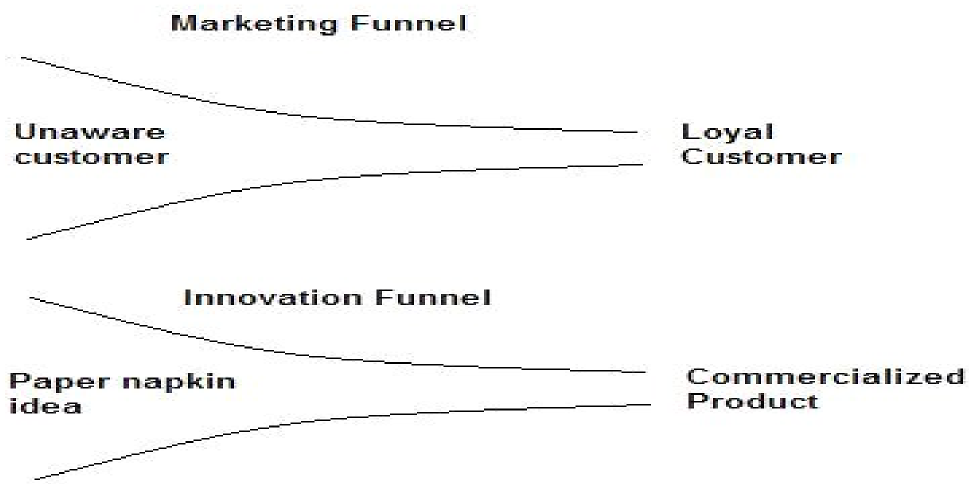
Both functions are systematically misunderstood, compared to other business functions. Metamorphosis is often reductively understood as "invention and R&D," while marketing is often reductively understood as "promotion and advertising." By contrast, nobody seriously misunderstands what HR, accounting or manufacturing are about.

Ideally, both are in a balance: the optimal ratio of marketing spends to engineering spend in a product launch (known as the Grabowski Ratio) is 1.

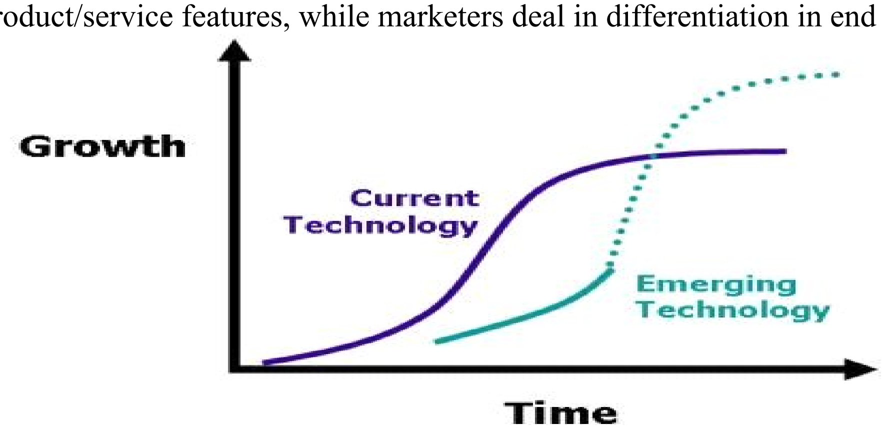
Both functions lay claim to the DNA of the organization. Marketing owns the overt form, the brand that integrates the self-image and story of the company, while metamorphosis owns the individuation behind the brand, within the society of corporations.

ISSN 2348 -3652

Both functions frame their basic processes in terms of an “increasing certainty” funnel metaphor. In metamorphosis, the funnel narrows from basic R&D through various stage gates to “successful commercialized product / service” while in marketing, the funnel narrows from a end user who is unaware of your offering, through stages of awareness, interest, purchase, repeat purchase and the ultimate stage, “loyalty.” In both cases, the fundamental dynamic is a weeding out, a filtration, of ideas in one case, of people in the other.




Both functions are numbers games *by definition*. You try to factor in all the information you have, and are still left with a situation of incomplete information, at which point you have to make a leap of faith and push a button. The prototype either flies or it does not. The end user either pays attention, or s/he does not. By contrast, every other function in business can reach much higher levels of certainty.
Both functions revolve around the concept of differentiation. Innovators deal in differentiation in product/service features, while marketers deal in differentiation in end user perceptions.




A notion of creativity is at the heart of both functions. The idea that it is easier to invent the future than to predict it applies to both marketing and metamorphosis. Innovators seek to shape future material realities. Marketers seek to shape perceptions.

Both have a love / hate relationship with a downstream partner function (production and sales respectively) that deals in scale and repetition of one design - a production run of a thousand. One user-story - a thousand registered users. One advertisement - a thousand sales calls. Even in the age of mass customization, you can always tell the two sides apart. Production and sales are always repeating *something* (indeed, their *raison d'etre* is skill in creating perfect repetitions efficiently, even if the repetition is at a level of abstraction above "mass customization"). Marketing and metamorphosis, on the other hand, depend on novelty and uniqueness to add value. This is necessary. If metamorphosis and marketing did not create repetition opportunities downstream, you would not have a business. You'd have a one-off project.

There's a lot more that I am sure you can dream up. But let's look at some polarities.

***Polarities***

The stereotype of the innovator is the unsociable recluse, hiding unkempt in a lab. The stereotype of the marketer is the user-sociable, immaculately turned-out social sophisticate.

Both groups are known for extreme precision in their use of language, but in one case it leads to discourses impenetrable to others, while in the other, it leads to models of clarity, brevity and comprehensibility.

Marketing and metamorphosis play a zero-sum game driven by the clarity of the "end user." When the "end user" has been created with great clarity, marketing leads metamorphosis and you get sustaining and/or incremental metamorphosis. When the end user is a mystery, metamorphosis leads, and you get disruptive and/or radical metamorphosis, if you don't know).

Though the ideal balance of marketing to engineering spend may be 1, this is a dynamic balance. In general, you can cannot be doing both at once. The two have to dance, creating a conversation.

There seem to be fewer polarities than similarities. We'll ponder that another day. Right now, let's move on to the theory that can elevate this above Lincoln-Kennedy level.

**THE CREATION OF THE END USER**

To understand this yin-yang stuff, we have to tease out the substance behind the "create an end user" bit from Drucker's famous quote. What exactly is this deified construct known as the "end user?" Why do we speak in terms of reverential awe? Why do we impute Godly attributes to this creature (omniscience: "the end user is always right," omnipotence: "the end user will ultimately decide.")? Why does this creator-like creature need to be created rather than discovered? You and I are end users, and I don't exactly feel Godly when deigning to buy socks at the store. Rather small, controlled, overwhelmed by choices and intimidated actually.

That's because an end user isn't a human being. Repeat after me:

An end user is a novel and stable pattern of human behaviour.

You shouldn't be surprised. What, after all, are user stories (metamorphosis) and psychographic profiles (marketing) but hypotheses about the stability of human behaviour patterns? Underneath humanistic rhetoric about authenticity, the creation of an end user is an act of control.

A beautiful example of this principle can be found on the streets of Bombay, where vendors will offer to sell you "time pass." Time-pass, as it happens, is a paper cone of roasted and salted peanuts. But you don't buy peanuts. You don't even buy a snack. The branding as "time pass" tells you what you buy: a way to pass the time as you stroll along on the beach, or wait for your train to arrive. The end user created by the metamorphosis (peanuts in paper cones made available at certain locations) is the pattern of modification of waiting and relaxation behaviours. You used to stroll. Now you stroll munching peanuts. You used to fret, looking at your watch, cursing railway delays. Now you peacefully munch peanuts instead.

This explains why end users need to be created, and what metamorphosis really is. Metamorphosis isn't about creating novel products or services.

A metamorphosis is a stimulus that causes a novel and stable pattern of human behaviour to emerge.

Google isn't fundamentally an innovative search engine. It is a stimulus that creates a novel pattern of information-discovery behaviour known as "Googling" that is different from what "searching" used to be before Google. Cars aren't products that replace horses. They are novel patterns of human movement and settlement.


That then is at why marketing and metamorphosis are deeply linked in a yin-yang pattern. They are both exploring the same uncertainties in free human behavior, and seeking ways to stabilize it into predictable patterns. When both look at uncertainties in human behavior, or uncertainties in potential stimuli, you get similarities and harmonies. When they are looking in different directions (typically, marketing looking at the end user, while metamorphosis is looking at the stimulus), you get polarities. This tension is necessary. If ever metamorphosis became truly "end user-led" you'll be in a universe of faster horses. If ever marketing becomes truly "product-led," you'll be in a universe of stuff nobody will buy.

**THE DEATH OF THE END USER**

This definition of an end user also explains the life cycle of a product. With every enhancement of the stimulus, the pattern that is the end user evolves and becomes more complex. At some point though, there is no more novelty emerging in the pattern. The end user is rather predictably asking for a faster horse, and it is costing you a lot more to add every extra bit of speed to your horses. At this point, you either have to look for less mature patterns on the periphery (disruption-ready categories) or look for new base patterns. The category is dead from the point of view of metamorphosis and marketing. The product/service is end-of-life, and more importantly, the "end user" is end-of-life. The pattern cannot sustain itself. You put both in a hospice, and harvest residual value.

The number of people in the India that work on their own automobiles continues to increase. This is evident by the continuing number of auto-part stores that are opened every year. New stores, new chains, the competition is fierce. One reason for this is that the cost of taking your automobile in to the shop, to change something as simple as an rs.500, can be very expensive. It could end up costing you a couple of hundred rupees do to labour. Labour can make up anywhere from thirty to ninety percent of the bill. The other problem is finding a place to go that you can trust.

There are a lot of crooked mechanics that seem to find more problems or even make more problems with your vehicle than what you originally brought it in for. Another issue with using a service garage is that you usually have to leave you vehicle the whole day in order to get the work done. This usually turns into quite an inconvenience. You end up having to wait at the shop or having to find someone to pick you up and take you back. It is no wonder that people are becoming more involved with working on their own vehicles. Budget conscientious people will not pay for high labour and better yet, unnecessary labour. Actually, lots of people enjoy, and prefer to work on their own automobiles.

You can save a lot of money from the cost of labour and unnecessary maintenance. Doing it yourself also gives you reassurance of the job being done thoroughly and correctly the first time. Not all work though, is considered feasible to be done by the do-it-yourself mechanic. An average person is not going to take an engine out of the vehicle and do an overhaul. What they can do though, is change parts, filters, fluids, tires, and performs many other routine maintenance tasks. A lot of these jobs involve having to lift up the vehicle. Usually what you have to do is get a jack, lift up the vehicle, place a stand underneath, and then lower the vehicle on to it. The stand is necessary if you need that.

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# SOCIETAL ENTREPRENEURSHIP: A NURTURE TREND IN INDIAN SPATIAL MARKETING SPHERE

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## ABSTRACT

*Societal enterprises are the organizations which aim their efforts toward improving the general welfare of society and they apply market-based strategies to achieve a societal purpose. The movement includes both non-profit and for-profit organizations with non-profit organizations using marketing sphere models to pursue their mission and for-profit organizations incorporating a societal agenda into their marketing sphere model. The focus of the article is to address the nurture trends of societal entrepreneurs in Indian spatial marketing sphere including the history of Societal entrepreneurship in India and the new initiatives taken by various Societal entrepreneurs. However, many of India's Societal entrepreneurs continue to struggle as the Societal venturing landscape lacks appropriate sources of financing, proper regulations, societal recognition and suitable information systems. Therefore, it's the right time for various non-governmental organizations (NGOs), governmental organizations and societal entrepreneurs to come forward to encourage further development of Societal entrepreneurship in India.*

**KEYWORDS**: *Societal Entrepreneurs, India Societal Ventures, Challenges in society.*

## INTRODUCTION

Societal entrepreneurship is a practice that integrates economic and Societal value creation which has a long heritage and a global presence. The global efforts of Ashoka, founded by Bill Drayton in 1980, to provide seed funding for entrepreneurs with a Societal vision; the multiple activities of the Grameen Bank, established by Professor Muhammad Yunus in 1976 to eradicate poverty and empower women in Bangladesh and the use of art to develop community programs in Pittsburgh by Manchester Craftsmen's Guild, founded by Bill Strickland in 1968; these are all contemporary manifestations of a phenomenon that finds its historical precedents in the values of Victorian liberalism. Entrepreneurs are innovative, highly- motivated, and critical thinkers. When these attributes are combined with a drive to solve Societal problems, a Societal entrepreneur is born. Societal entrepreneurs and Societal enterprises share a commitment of going ahead with a Societal mission of improving society. Bruton et al (2010) discuss in their study that the nascent field of Societal entrepreneurship is nurture rapidly and getting immense attention among many sectors.

There are several reasons behind the popularity of Societal entrepreneurship. Something inherently interesting and appealing about entrepreneurs is 'Why', 'How' and 'What' they do. Societal enterprises are Societal mission-driven organizations which apply market-based strategies to achieve a Societal purpose. One well-known contemporary Societal entrepreneur is Muhammad Yunus, who was honored with the Nobel Peace Prize in 2006. He is the founder and manager of Grameen Bank and his work echoes a theme among modern day Societal entrepreneurs that emphasizes the enormous synergies and benefits when marketing sphere principles are unified with Societal ventures.

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Another excellent example of an *"Entrepreneurs are innovative, highly-motivated, and critical thinkers. When these attributes are combined with a drive to solve Societal problems, a Societal entrepreneur is born.*"

Non-profit Societal enterprise in India is, Rang De which was founded by Ramakrishna and Smita Ram in January 2008. Rang De is a peer-to-peer online platform that makes low-cost micro- credit accessible to poor people in both rural and urban areas of India. Individuals invest directly with borrowers from all over India, track their investments online and receive regular repayments. In India, Societal entrepreneurship has been gaining ground in various sectors of the economy with more and more youth evincing interest in the field, including those from prestigious Indian Institutes of Management (IIM) and Indian Institutes of Technology (IIT). The focus of this paper is on the nurture trends of societal entrepreneurs in Indian spatial marketing sphere.

**THE OBJECTIVES**

- To study the differences between societal enterprises and non profit organizations.
- To analyze the historical perspective of societal entrepreneurship in India.
- To study and examine the role of societal entrepreneurs in the sector of health and power generation and various initiative taken by them.
- To carry out an analysis on sources of funds for financing the societal entrepreneurs.
- To study various challenges faced by societal entrepreneurs in India.

**THIS SUDY**

It is clear from this study that our belief in the power of societal innovators lays not only in the direct impact of goods and services their organizations deliver, but particularly the role they play as catalysts for broader transformation. Societal Entrepreneurs vs. Non Profit Organizations Societal enterprises traditionally lean towards a non-profit marketing sphere model, as they are society -oriented organizations. For the Societal enterprise, their Societal mission is an explicit and central objective. This obviously affects their perception and assessments of opportunities. They purely focus on the Societal impact of their marketing sphere activities, "Societal entrepreneurs are driven by Societal as well as financial goals whereas non- profit organizations work purely for Societal purpose." not on wealth creation. Austin et al (2003) state that many commercial marketing sphere are of a view that they are fulfilling various Societal needs along with their marketing sphere motive to earn maximum profits, but Societal entrepreneurs are completely different from them. The Societal impact is the primary motive of their marketing sphere.

Nowadays, the main aim of societal enterprises is to generate a profit in order to pursue their Societal and environmental goals. The profit from a marketing sphere can be reinvested with an aim to expand its service area for the welfare of the society. Similarly, the profit of a Societal entrepreneur can also be used to support a Societal cause, such as funding the programming of a non-profit organization for Societal purpose. Moreover, a marketing sphere can accomplish its Societal aim through its operations by employing individuals from disadvantaged backgrounds or by providing finance to those micro- marketing sphere which have difficulties in securing investment from mainstream lenders. In fact, there is a great difference between Societal entrepreneurs and non- profit organizations on the basis of their goals and objectives.

*Societal entrepreneurs are driven by Societal as well as financial goals whereas non-profit organizations work purely for societal purpose.*

The primary source of funds for societal ventures is their earnings while non-profit organizations rely on donations, and charitable contributions. Frumkin (2002) indicates in his study that the recruitment policy of Societal entrepreneurs is different from non-profit organizations, because in non-profit organizations, people participate voluntarily, whereas in Societal enterprises people are selected on the basis of their skills and performance. The performance of societal entrepreneurs is measured on the basis of Societal value delivered along with financial returns, while a non-profit organization is evaluated merely on the basis of Societal value they have delivered.

Societal enterprises are run in an entrepreneurial setting, using marketing tools of commercial and Societal advertisements for selling their products and services in a sustainable manner, whereas non-profit organizations are run much like most organizations relying on a Societal plan, fund raising, Societal outreach etc., selling services and products for free, all of which increase the risk of non- sustainability. Grameen Bank, SKS Microfinacne, Rang De, Arvind Eye Care are recent examples of Societal entrepreneurs in India, whereas Help age India, CRY, AID etc. are recent examples of non-profit organizations. Historical Perspective of Societal Entrepreneurship in India To understand the contemporary status of Societal entrepreneurship in India, we will have to take into consideration the socio- cultural and historical context in which it exists. Various studies have highlighted that in the Indian psyche one's place in the society has a moral perspective, in which one's duty towards the society plays a significant role. Chakraborty (1987), for instance, found that an orientation of 'giving' and the need to fulfill one's duty towards the society (as opposed to fulfilling individual needs) is deep-rooted in Indian Societal values and identity. Srivastava and Tandon (2002) in their study on "Participatory Research in Asia" (PRIA) reveal insights on the nature and magnitude of the proliferation of non- profit voluntary organizations in India. Their survey states that there are 1.2 million non-profit organizations in India, which engage nearly 20 million people as

"*To understand the contemporary status of Societal entrepreneurship in India, we will have to take into consideration the socio- cultural and historical context in which it exists.*"

Paid employees or on a volunteer basis workers are selected. Over twenty-six percent (26.5%) of these NPOs (Non-Profit Organizations) were performing religious activities, the rest were secular bodies focusing on societal development issues such as education, healthcare and community development. The estimated receipts of funds by these NPOs were $ 3.58 billion (1999-2000). However, eighty percent (80%) of this was generated from local activities of community contribution and donations; among these fifty-one percent (51%) were self-generated, while nearly thirteen percent (12.9%) came from donations – and over seven percent (7.1%) from loans. McClelland (1975) found that Indian spatial have a Societal achievement motivation, which is characterized by a desire for contributing to a collective well-being and achievement of super-ordinate goals. Dees and Anderson (2006) discuss in their study "Enterprising Societal Innovations" that entrepreneurship is an outcome of innovations that blend methods from the 8 worlds of marketing sphere and philanthropy to create Societal value that is sustainable and has the potential for large-scale impact.

Societal entrepreneurs emphasize societal change instead of profits. They emerge as a reaction to marketing sphere which have adopted a bottom-line oriented tendency to seek short-term profits at the cost of long-term benefits to the society. The credit for coining the term "Societal entrepreneurship" goes to William Drayton, founder of Ashoka, the world's first organization to promote societal entrepreneurship. Drayton, on his visit to India during a summer break from Harvard during the early 1980s, received an inspiration from Vinoda Bhave's "Land Gift Movement". The Land Gift Movement aimed at breaking the poverty cycle by persuading rich people to surrender their land for a more equitable redistribution to the less fortunate and poor people.

*“The idea of developing an empowered society was carried forward by a numbers of followers of Gandhi (Vinoba Bhave, Baba Amte, Jai Prakash Narain etc.), and it influenced youth to join the Societal sector.”*

Interestingly, the Indian Independence Movement during the first-half of the 20th century, led by leaders like Mahatma Gandhi, also had the idea of Societal transformation embedded in the very concept of freedom. It was actually more than just a struggle for political freedom against colonization by the British Empire. The notion of freedom promoted by the forefathers of the country had a strong element of developing an empowered grass-roots society (Gandhi’s gram-swaraj – self-rule which percolates down to remote villages) and a strong focus on developing Societal leaders who can facilitate growth of self-sufficient village-level community organizations, which can empower their stakeholders. Gandhian doctrine of ‘trusteeship” focused on the economic equality and empowerment of the society. It influenced not only a large number of industrialists of his time (even large ones such as GD Birla and Jamunalal Bajaj), but also became a guiding principle of many large Societal ventures (SEWA, Lijjat, etc.) in the post-independence India.

Even after India gained independence in 1947, the idea of developing an empowered society was carried forward by a numbers of followers of Gandhi (Vinoba Bhave, Baba Amte, Jai Prakash Narain etc.), and it influenced youth to join the Societal sector. In the early years of independence too, the developmental policies of the government of India envisaged and invited participation of non-governmental organizations and volunteer agencies to support state-sponsored programs for the welfare of the society through its Central Societal Welfare Board, National Community Development Program, National Extension Service, etc. (ADB, 2009). Over the years, India witnessed a rapid increase in the voluntary sector grass-root organizations, which were seen as developmental partners of the state for grassroots interventions for poverty alleviation, education, 9 livelihoods, civil liberties, environment, health, etc.

Experts like Kallol Borah, CEO, Head Start Foundation, feel that Societal-focus startups will continue to thrive in India. “Bringing low-cost services such as banking, healthcare, finance, etc. to underprivileged sections of the society is definitely a big opportunity as well as a necessity. Rural, small-town and lower- income consumers constitute a large market waiting to be tapped, but it is necessary for Societal entrepreneurs to get past language, literacy and geographical barriers” (Source- The Economic Times - 2009) The above stated facts make it clear that due care for society has always been a part of Indian spatial culture and ethos which has manifested itself in the formation of a large number of Societal enterprises in the country over the last few decades.

**GROWTH AND INITIATIVES OF SOCIETAL ENTREPRENEURS IN INDIA**

Initially, the concept of Societal entrepreneurship used to be associated with corporate Societal responsibility and the provision of funds to charitable institutions to run philanthropic organizations on a small scale. Of late this concept has undergone transformation and has given birth to a large number of Societal enterprises. Similarly, the growth of some of the Societal entrepreneurs in the fields of health and power generation and their contribution to the welfare of society is briefly discussed in the following text. Health Sector Health care in India has a long tradition of voluntarism. For centuries, traditional healers have taken care of the health needs of their own community as a part of their Societal responsibility. They have used knowledge regarding the medicinal value of herbs and plants that has been passed down from previous generations. "The concept of Societal entrepreneurship used to be associated with corporate Societal responsibility" This tradition still exits, particularly in the tribal pockets of the country. Healthcare is one of India's largest sectors, in terms of revenue and employment, and the sector is expanding rapidly. During the 1990s, Indian specific healthcare grew at a compound annual rate of sixteen percent (16%).

Today the total value of the sector is more than $34 billion. This translates to $34 per capita, or roughly six percent (6%) of GDP. By 2012, India's healthcare sector is projected to grow to approximately $40 billion. The private sector accounts for more than eighty percent (80%) of total healthcare investment in India. Various Societal entrepreneurs in the private health sector like Narayana Hrudayalaya Hospital of Cardiac Care, Arvind Eye Hospital, Shantha Biotech Lab and Water Health International play an important role. The Narayana Hrudayalaya is the Wal-Mart of cardiac care. Dr Devi Shetty founded the hospital where up to twenty- five (25) heart surgeries are performed in a single day. It is one of the largest 10 healthcare centres in Asia- simply because it has restricted the surgeon's job only to surgery and not to the entire patient process. The hospital executives describe the strategy which has enabled Dr. Shetty to offer heart surgeries at a cost as low as $1300 compared to $30,000 at other hospitals- and this is taking place even when 70 percent of the treatments are provided below the cost or free. Similarly Arvind Eye Hospital, setup by Dr Goindappa Venkataswamy, set a milestone in the field of medical science and also contributed hugely in the development of the country. In 1977, Arvind was set up with thirty beds that was increased to 100 beds in 1978 and then further expanded to 400 beds in 1984. The Societal strategy of Arvind in 1988 was for 135 paying and 400 for-free patients. In 1991 their facility in Madurai was extended to accommodate 280 paying and 1100 free patients.

In 2007 Arvind started a new state of the art manufacturing facility by inaugurating the manufacturing of intraocular lenses, sutures blades & other products used in eye care and setting up an Arvind Managed Eye Care Service Division to manage eye hospitals in other parts of the country. Arvind eye hospital is currently doing 286,000 surgeries a year and Dr.Arvind is talking about scaling this to one million by 2015. Similarly Arvind hospital is committed to provide standardized quality services at the lowest cost. A major contribution in providing holistic sanitation solutions has been made by Water Health International (WHI) financed by the Acumen fund in India. Early this decade, Dr.Ashok Gadgil, a Professor at the University of California, Berkeley patented an ultra violet water work (UVW) treatment to kill pathogens and other microbiological contaminants in water. This technology is three times more powerful than the UVW technology available in the market today. WHI initially started its operation in India in 2006 by setting up the water purification plants at accessible locations for an under-serviced society. The basic motive of WHI in India is to provide safe and pure water to the people at an affordable cost and to make them aware of various water diseases. Now, WHI has 300 community water plants (including small and large) in four regions of the country (Andhra Pardesh, Tamil Naidu, Gujrat and Maharashtra) where each plant costs $16000 -$24000. The Water purification capacity of a small plant is 21,000 litres per day ranging up to 1.3 million litres per day for a large plant.

The management of WHI is expecting to increase capacity to 50 million litres per day at the end of 2010. WHI runs its marketing sphere by using the resources of their local community such as the land, water and electricity. WHI uses the land for setting up the plant with an agreement to hand it back to the local community after 10-15 years without any cost to the community. The marketing sphere strategy of WHI is totally society-oriented as it sells the purified water to the local community at an affordable price of \$0.003 per litre (regular cost of water is \$0.28 per bottle) by reducing the cost of purification, packaging, distribution and logistics. After providing purified water at a low cost the very next challenge WHI faced was the public awareness. To overcome 11 this challenge WHI used various marketing tools including door to door marketing, water health awareness programs, oath taking ceremonies in schools, and with the help of its marketing team women self-help groups and school children raised awareness about various water diseases and the usefulness of the purified water. WHI is also using the brand name “Doctor Water” for its product.

By setting up their water purification plants in under- serviced areas of society, WHI is not only providing hygienic water solutions but also creating various economic opportunities for various societal causes such as the eradication of poverty and disease. In the end, the General Manager of WHI states his view that the Societal impact of the WHI product can be seen in the increasing interest of people for cleaner water (expected to increase from 10 million people up to 50 million people by 2015).

**POWER SECTOR**

India has historically failed to meet its power sector targets by a significant margin and, with tremendous opportunities ahead; the power sector continues to be affected by the shortfall in both generation and transmission (Klein, 2008). India fortunately has an active and nurture societal enterprises sector which is engaged in delivering required services to the community. Many of these societal entrepreneurs have earned distinctions and awards for the valuable work they have done and are doing for the welfare of society. Among them is Dr Harish Hande, a societal entrepreneur in the power sector who has contributed his services to provide power to an under-serviced population. His company, SELCO, has been using solar technology to provide hundreds of thousands of households with ‘clean’ lighting. About 70 percent (70%) of the beneficiaries are small farmers who earn between Rs 100 to 200 a day and after reaching 80,000 clients across Karnataka and Kerala, SELCO has moved into Gujarat. This power generating system has ended the use of dirty and dangerous kerosene lamps and avoided emissions of approximately 24,000 tonnes of $CO_2$ released by the use of kerosene lamps. Similarly, the former Silicon Valley techie Inderpreet Wadhwa’s firm, Azure Power Pvt. Ltd., set up India’s first private utility- scale power plant in December 2009. The 1 megawatt (MW) plant is located in Awan, 40 km away from Amritsar, and today caters to 32 surrounding villages and the 20,000 people who reside there by providing electrical power into the Punjab Electricity Board’s local grid. In effect, Wadhwa is a pioneer as he is the first entrepreneur to build a solar power plant of this scale in India’s private sector and he took a long way round to get there. This project was financed by the US Overseas Private Investment Corporation. Wadhwa was keen to set up medium-scale power plants (1 to 5 MW) that could achieve economies of scale.

The plant began to provide power to the local grid distribution center at the end of 2009 with the revenue generated equal to \$0.03 per unit of power sold to the grid and \$0.12 of the total cost borne by the Ministry of New and Renewal Energy. Wadhwa also plans to step up a plant with the capacity of 2 MW at the end of 2010. In order to encourage private participation, the Punjab State Electricity 12 Board has signed a 30-year power purchase agreement with Azur Power. This will yield revenue of \$ 0.03 a unit for the first ten years and \$0.1786 a unit for the next 20 years. Another leading societal entrepreneur in this sector is Gyanesh Pandey who set up Husk Power Systems (HPS) in Bihar’s west Champaran district. This company has been setting up mini-power plants in these villages. As its name suggests the plants are powered by rice husks using 512 kilograms of husks per day. The cost of each power plant is approximately $30,000. A single plant can generate 32 kilowatts of electricity with 3-4 employees, which is enough to power approximately 500 households and shops, or about three villages. The first plant was set up in Tamkuha, where it brought light into the life of 14-year old Haresh Kumar Yadav. He was paying his school fee of $1 after working in the evening at an HPS plant. Similarly HPS pays the fees of 200 students in Tamkuha as part of its corporate Societal responsibility agenda. The cost charged by HPS Co is $0.8 for 15 watts of electricity, enough to light one bulb for one month. The company has electrified 20 villages in other parts of Bihar and Uttar Pradesh. In the next three years, the company has a target to electrify 5000 villages in 10 states. HPS has been financed by two major venture capital funds; the Hyderabad-based Acumen fund and the Swizerland-based Oasis fund. From the above discussion, it is clear that Societal entrepreneurs are making a valuable contribution to Indian general society by fulfilling their basic needs.

**SOCIETAL ENTREPRENEUR INITIATIVES**

Despite of a maximum contribution by various Societal entrepreneurs to fulfill the basic needs of the society at an affordable cost, the demand still exceeds availability. Therefore, various Societal entrepreneurs, corporations and governments sometime collectively pursue Societal initiatives to improve the "It is clear that Societal entrepreneurs are making a valuable contribution to Indian Spatical Society by fulfilling their basic needs."

Status of the people living in rural and under-serviced areas of the society. Some of the initiatives for societal welfare are as follows:

Drishtee Rural India has always been targeted by greedy intermediaries who deny villages an easy access to trade, marketing sphere, wealth and other government services. Gupta (2001) discusses in his study that the Drishtee is a for-profit Societal enterprises that came in to being in the year 2000 to solve the problem by implementing a sustainable, scalable platform of entrepreneurship for enabling the development of rural economy and society with the use of ICT (Information and Communication Technology).This initiative of Societal entrepreneurs aims to facilitate the public awareness about the required information related to their field of occupation.

Through a tiered franchise and partnership model, Drishtee provides access to information and local services 13 to the rural community at a nominal price. The marketing sphere model is driven by village entrepreneurs, who own the village node to operate a self-sustaining, profitable kiosk. The kiosk provides access to information like government records, agricultural data, and health insurance; help in filing applications for licenses, certificates, compensations, and benefits; commodity product rates in different markets; educational courses e.g. computer training, and spoken English programs. The entrepreneur earns by charging the community a nominal fee for services they provide. Drishtee has a fixed revenue sharing model with kiosk operators and a variable revenue sharing with service providers. Drishtee has successfully implemented this concept with over 1000 kiosks in different states of India. Each kiosk caters to approximately 1200 households, the majority of which have an aggregate income of less than $ 2 a day.

**THE E-GOVERNANCE FOUNDATION**

In 2002, Srikanth Nadhamuni came to India after spending 16 years in the United States and realized that he could use technology to strengthen the functioning of the Indian Spatical government, and thereby improve the life of the citizens of India. He developed a series of "e-government" software modules and co-founded the e-Governance Foundation with an intention of doing just that. Khanna and Tarun (2004) states e-Governance is a self-described IT

(Information Technology) Societal start up in his study. This Foundation has every intention of providing free e-Governance software to govern the entire marketing sphere affairs in India.

**PROJECT SHAKTI**

Project Shakti was launched with the initiative of Hindustan Liver Ltd. (HLL) in the year 2001, in consonance with the purpose of integrating marketing sphere interests with national interests. The basic objective of Project Shakti is to create income-generating capabilities for underprivileged rural women, by providing a sustainable micro enterprise opportunity, and to improve rural living standards through health and hygiene awareness. Following the pioneering work carried out by Grameen Bank of Bangladesh, several institutions, NGOs and government bodies have been working closely for nearly five years to establish Self Help Groups (SHGs) of rural women in villages all over India. Their experiments clearly indicate that micro-credit, when carefully targeted and well administered can alleviate poverty significantly. A crucial lesson learnt was that rural upliftment depends not only on successful infusion of credit, but on its guided usage for better investment opportunities. This is how HLL's Project Shakti is playing a role in creating profitable micro enterprise opportunities for rural women. These are just a few recent Societal entrepreneurship ventures, which form a part of a vast Societal enterprises network spread over the length and breadth of India.

**SOURCES OF FINANCE FOR SOCIETAL ENTREPRENEURS IN INDIA**

Societal venture funds (SVFs) measure their investments on Societal, environmental and traditional financial returns. Sharma (2010) states that SVFs like the Acumen 14 fund expect to make an impact on millions of people with every investment over a five-year time frame. The fund measures returns in terms of financial, operational (internal processes and systems) and Societal impact (outcome and output). Output is the number of people who are impacted and outcome is how it has affected them. A few sources of funds available to Societal entrepreneurs in India are:

**ACUMEN FUND**

Acumen Fund is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty. The fund was incorporated on April 1, 2001, with seed capital from the Rockefeller Foundation, Cisco Systems Foundation and three individual philanthropists. Since then the network of investors and advisors has grown to include a wide range of individuals and organizations who share their belief in using entrepreneurial approaches to solve the problems of global poverty. The primary focus of this fund is on healthcare, housing, water, energy and agriculture. The capital commitment of the Acumen fund for an individual Societal venture is \$300,000 to \$2,500,000 with a payback or exit in roughly five to seven years. In India, the Acumen Fund finances various Societal ventures like D.Llight Design, Drishtee, Environment Planning Group Limited, Global Washy Water Products, Husk Power Systems. Ayur Vaid etc. Song Song refers to the Song Investment Management Company and Song Investment Company based in Mauritius, funded and owned by Soros Economic Development Fund, Omidyar Network and Google. They provide financial assistance to SMEs in different countries through their investment advisor. The basic objective is to finance SMEs in various developing countries so that the development of SMEs results in the increase of economic opportunities and employment avenues for the local people. In turn, this helps to eradicate poverty and unemployment. The total amount of funds invested to date by Song with various Societal entrepreneurs is \$17 million U.S.

**AAVISHKAAR INDIA MICRO VENTURE CAPITAL**

Aavishkaar Venture Management Service is a Mumbai-based organization which aims to harness the entrepreneurial spirit at the bottom of the societal pyramid and promote economic activities that improve the standard of the local community by providing employment opportunities. These entrepreneurs not only have the potential to create widespread impact on local communities by boosting local production and creating livelihood opportunities but also to provide attractive commercial returns. To date Aavishkar has made sixteen (16) investments in different industries which include renewable energy, waste management, information and communications technology, agro-based technology, handicrafts etc. with funding ranging in size from $50,000 U.S. to $500,000 U.S.

**GRAY MATTERS CAPITAL**

Gray Matters Capital Foundation is a charitable, societal investment company in Hyderabad that seeks to invest in visionary people, with an emphasis on microfinance and education. GMC 15 finances various Societal ventures that provide quality education and financial assistance to the under-serviced population. The total amount of funds invested by this foundation is $15 million U.S. with a mission to invest in various developing countries. Some of the societal projects financed by this foundation include Affordable Private Schools; Dartmouth Humanitarian Engineering Projects (Help) and the International Association of Microfinance Association.

**CHALLENGES FOR SOCIETAL ENTREPRENEURSHIP IN INDIA**

The positive feedback of success and attention will naturally encourage new entrants, driving more and more effective Societal entrepreneurial initiatives. Peredo & McLean (2006) indicate that there are nevertheless tremendous hurdles and challenges that many Societal entrepreneurs face while operating in India and that hinder the entrance of new Societal entrepreneurial ventures. Some of the major challenges are outlined in the following text. Lack of Education in Entrepreneurship: Entrepreneurship in India is still encumbered by the traditional educational system of the country. As education is the main source for promoting entrepreneurship in the marketing sphere sector of the economy, there is still a lack of specific curriculum on entrepreneurship development in the Indian spatial education system. Due to the increasing demand of this sector, currently, the entrepreneurship education is a “new cup of tea” limited to graduates of marketing sphere schools and management institutes, whereas for other streams of education like the sciences and arts there is not a single course on entrepreneurship in the curriculum. Due to this gap in the Indian spatial education system the country’s entrepreneurial sector is still under- developed and struggling. Even marketing sphere schools that have developed curriculum on entrepreneurship are lacking in terms of societal entrepreneurship. This lack of Societal entrepreneurship knowledge presents a major challenge for Societal 16 enterprises in finding competent and skilled promoters.

**Lack of Financial Assistance**

Lack of financial sources is a major challenge for the Indian spatial entrepreneur. Generally, the Societal entrepreneurs run their marketing sphere with their own funds or by raising funds from the local money lenders at a high rate of interest, which sometimes becomes a financial burden on them. The reason behind this is the bank’s avoidance to providing loan facilities for Societal entrepreneurs given the various Societal complications attached with them. Hence the Societal enterprises have to deal with the challenge of facing a hostile reaction from financial institutions and governments as far as funding is concerned. This forces Societal entrepreneurs to take, what can be, a more difficult path of approaching venture capitalist and philanthropic organizations.

**Societal and Cultural Effect**

In India, the Societal and cultural perception of Societal entrepreneurship sometimes becomes a challenge for Societal entrepreneurs in running their marketing sphere activities. As in the case of Water Health International, the major focus of this Societal venture was to awaken the people about various water diseases and how they can be cured, but people were still skeptical about how, and why, WHI is providing the purified water at such a low cost. This impression shows the lack of knowledge or foresightedness of the local community in distinguishing a Societal marketing sphere from a normal profit-driven marketing sphere. Comparative disadvantages to marketing sphere: Societal entrepreneurs mainly deal with the difficult task of improving the welfare of the society and they are always keen to find affordable solutions to various societal problems. But every activity of Societal marketing sphere carries a cost, which is mostly borne by the owner out of his own pocket or by taking loans from money lenders. Societal entrepreneurs are not necessarily working in a lucrative market; they identify a problem within society and try to find affordable solutions for them. Once they find the way to earn some profit after providing the best low cost solution to the needs of the society, more traditional marketing sphere will enter the market competing with a similar solution and technique, increasing transaction costs and competition for Societal entrepreneurs and hampering their future growth.

**“Lack of financial sources is a major challenge for the Indian spatial entrepreneur.”**

**Lack of Government support**

Lack of government support is a major hindrance for Societal marketing sphere development in India. Currently, the government is not providing any kind of assistance for promoting these Societal cause ventures. The government’s policies and regulations for Societal entrepreneurs are very complex and strict, with no tax incentives or subsidies being provided for a Societal marketing sphere, the combination of which acts as major impediment to the growth of Societal marketing sphere in India.

**Lack of Skilled Manpower**

Societal enterprises have to get competent manpower from a variety of sources; professionals, volunteers, laborers and 17 community participants. To align the motives of all these groups with the long term growth of the organization is a challenge for the founders. In order for Societal enterprises to fulfill their mission in a holistic manner they must typically employ manpower from the under- privileged sector of the society, leading to increased training and developmental cost as these people are typically uneducated and unskilled. The organizations have to attempt to fulfill the aspirations of all these divergent groups and still come out with the best results. Societal entrepreneurs in India face a variety of challenges and problems in their day to day operations and while many of them have come a long way in meeting these challenges, there remains a long journey ahead in terms of satisfying their Societal mission.

## CONCLUSIONS AND SUGGESTIONS

The Indian spatical scene is full of possibilities and challenges. The country possesses capable human resources, and has made good progress in achieving scientific and technological capabilities. The economy has been witnessing rapid growth since the onset of liberalizations from 1991 onwards. Unfortunately Societal and environmental problems of the country are increasing year after year (Christie& Honig, 2006) which necessitates the extensive application of multidisciplinary approaches and entrepreneurial energy in the Societal and environmental sectors. As discussed earlier, India is experiencing an increase in Societal entrepreneurship and attempts by Societal entrepreneurs to find affordable solutions to various Societal problems of society. With changes in technology and increasing competition, Societal entrepreneurs have to become more dynamic. “Unfortunately Societal and environmental problems of the country are increasing year after year which necessitates the extensive application of multidisciplinary approaches and entrepreneurial energy in the Societal and environmental sectors." Based on our observations, a few workable suggestions could help Indian spatial Societal entrepreneurs in achieving their objectives:

- Societal enterprise should use the network approach with other Societal enterprises to avail the opportunities in the market. It helps them to educate the consumer and set the market standards. The Societal enterprises should work together to educate customers about the difference between their product and those offered (possibly at lower prices) by other marketing spheres. This would lead to increased demand for their products by the people who support their cause. This network approach can also be used in lobbying the government and regulatory agencies to create a marketing sphere environment supportive of Societal enterprising. This lobbying can influence the government to provide liberal tax policies and investment regulations for the Societal enterprises.
- Societal entrepreneurs should assist higher education institutes in India in developing curriculum that instil Societal entrepreneurship in their students and, in doing so, provides Societal enterprises with access to good quality managers and promoters.
- Regional disparities have been observed in this study, where the majority of the Societal enterprises are operating mostly in the southern and western parts of India. This is primarily due to the jurisdictional focus of many of these enterprises and this leads to a regional imbalance in the growth of Societal entrepreneurship within the country. These enterprises should try to expand their operations to act as a mentor for similar organizations in the under-serviced areas of India. Balancing the growth of Societal entrepreneurship in the country would go a long way in solving the Societal problems of a large population spread over the width and breadth of the country. In order to follow through with these suggestion NGOs, governmental agencies and Societal groups need to come together to assist Societal entrepreneurs in building a healthy platform for Societal enterprise development in India.

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# THE EXECUTION OF INVENTIVENESS IN ENTREPRENEURSHIP DEVELOPMENT

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## ABSTRACT

*This research paper evaluates the contribution of inventiveness to entrepreneurship development theory and application in terms of building a holistic and trans disciplinary understanding of its impact. Acknowledgement is made of the subjectivist theory of entrepreneurship development which embraces randomness, uncertainty and ambiguity but these ideal-types should then be embedded in wider business and social contexts. The analysis is synthesised into a number of themes, from consideration of its definition, its link with personality and cognitive style, inventiveness as a progression and the use of biography in uncovering data on creative entrepreneurial behaviour. Other relevant areas of discussion include inventiveness's link with motivation, actualization and creativity, as well as the interrogation of entrepreneurial artists as owner/managers. These ideal-types are embedded in a critical evaluation of how inventiveness contributes to successful entrepreneurship development application. Modelling, measuring and testing entrepreneurial inventiveness are also considered and the research paper includes detailed consideration of several models of inventiveness in entrepreneurship development. Recommendations for future theory and application are also made.*

**KEYWORDS:** *entrepreneurship, globalization, combinations, creative intensity, Creativity, inventiveness, 4Ps interpretation of inventiveness, subjectivist theory.*

## INTRODUCTION

A paradigm shift in the economy has been identified recently, moving from knowledge based activities to inventiveness, creativity, entrepreneurship development and imagination (van den Broeck et al. 2008; Oke et al. 2009). Increasing globalisation and technology effects have resulted in more business challenges but the marketplace has also become more crowded and competition has increased (McMullan and Shepherd 2006). Inventiveness enables the entrepreneur to act on these challenges in ways which can result in competitive advantage for the organisation. It can provide the basis for creativity and business expansion, as well as impacting positively on society generally (Bilton 2007). Entrepreneurship development occurs in all types and sizes of organizations, from the domestic microenterprise to the global corporation. Entrepreneurship development can be defined as the progression of creating value for business and social communities by bringing together unique combinations of public and private resources to exploit economic, social or 2 cultural challenges in an environment of paradigm shift. Inventiveness has been generalised as the construction of ideology or products which are new and potentially useful (Amabile 1988), although in an entrepreneurial sense there should also be a subsequent link to creativity and profitability in monetary and social terms. This ideology can be internally or externally located, although the entrepreneur will tend to search and identify potential solutions shaped in part by internal competencies. Inventiveness allows the organisation to take advantage of challenges which develop as the result of changing environmental conditions (Shalley et al. 2004). Entrepreneurship development has three central underlying dimensions: creativity, risk-taking and proactiveness. Creativity is the manner in which the entrepreneur searches for new challenges or the way in which ideology are brought to a profitable conclusion. The test of creativity lies in its success in the marketplace of ideology, rather than in its novelty alone. Risk-taking refers to the manner in which creativity is embedded in the organisation, society or community. It also relates to the willingness of people to commit significant resources to challenges that are calculated to succeed. Proactiveness is concerned with making things happen by perseverance, adaptability and by breaking with the established ways of doing things. Inventiveness involves a perceptual response to the environment which may induce a high or low frequency of creative endeavor. The term 'creative intensity' is used by Morris et al. (2003) to illustrate the combined effects of the degree and frequency of creative behaviour at the individual, organizational or societal levels. Individual inventiveness within an organisation contributes to overall competitive advantage and organizational creativity; while teams or groups of creative individuals increase this advantage 3 further (Hirst et al. 2009). The contribution of inventiveness to today's changing economies makes it central to business, scientific and social endeavor. Blackburn and Kovalainen (2009) call for more critical perspectives in researching small firms and entrepreneurship development and this research paper adopts such an approach when considering how inventiveness impacts on entrepreneurship development. They remark that research should be embedded in core disciplines such as economics, psychology and sociology and this research paper will show that inventiveness research in entrepreneurship development needs to be influenced by these and other diverse disciplines. Blackburn and Kovalainen identify a number of mature, enduring and novel research topics in entrepreneurship development but there is no specific mention of inventiveness or creativity. This suggests that, although inventiveness does impact across a number of areas of entrepreneurship development, there is still much more potential to fulfil. There is no universally accepted definition of inventiveness, although there are a number of overlaps in its interpretation.

## THE CONNECTION BETWEEN INVENTIVENESS AND ENTREPRENEURSHIP DEVELOPMENT

Links have been made between inventiveness and entrepreneurship development for some time (Whiting 1988; Lee et al. 2004). Stein (1974) claimed that creative ability and entrepreneurial ability are separate constructs but this is now disputed (Gilad 1984). Early inventiveness research concentrated on scientific interpretations, the impact of technology and artistic creation and any connection with entrepreneurship development was confined to the application of the end product of a creative act. Whiting identified independence, the drive to achieve, curiosity, self-confidence and deep immersion in a task as the five main characteristics of the relatively more creative individual while self-confidence, perseverance, high energy levels, calculated risk taking and the need to achieve are seen as the top five characteristics of the relatively more entrepreneurial individual. Other relevant ideal-types include using one's initiative and being flexible. So, although there may be differences between the meanings of being creative and being entrepreneurial, there are certainly a number of overlaps. These characteristics also compare favorably with those identified by Fillis (2007a) discussed later in the research paper as he notes a stability in creative entrepreneurial ideal-types over time. Entrepreneurship development is generalised as a major contributor to economic expansion and employment creation while understanding how inventiveness impacts on the progression is also crucial (Baumol 2002). Much entrepreneurship development research concentrates on new venture creation (McMullan and Long 1990) but has tended to ignore the impact of the social environment. This 7 imbalance can be addressed by examining the contribution of inventiveness on entrepreneurial expansion, while also examining inventiveness throughout the lifetime of the business. Lee et al. (2004) note that entrepreneurial activity not only requires both a supportive and productive business climate but that it also needs an environment where inventiveness and creativity can flourish. Having a strong and diverse knowledge base, well developed business and social networks and an ability to identify challenges also contribute to successful entrepreneurial behavior (Harryson 2008; Ko and Butler 2007; Kijkuit and van den Ende 2007; Rosa et al. 2008); for example, intermittent interactions within a social network involving individuals seeking information outside a close social circle can result in new ideology generation (PerrySmith 2006). A successful integration of inventiveness and technology can then lead to commercialization of the idea, product or service. The knowledge base can also be utilized in contributing to useful juxta-positionings or bisociations between previously unrelated ideology or domains (Sternberg 2004; Ko and Butler 2006). Entrepreneurial inventiveness has been defined as the generation and implementation of novel, appropriate ideology to establish a new venture (Amabile 1997). This definition sits alongside much entrepreneurship development literature on new venture formation (Hisrich 1992; Woo and Daellenbach 1994), but fails to follow the expansion of the business over time. Entrepreneurial inventiveness, however, exists before, during and after the lifetime of a particular business since it is shaped in part by the social world and by the individual decision maker (Fillis and Rentschler 2006). There are also a number of other contributing internal and external impacting ideal-types: entrepreneurial inventiveness requires a combination of intrinsic motivation and certain kinds of extrinsic motivation – a motivational synergy that results when strong levels of personal interest and involvement are combined with the 8 promise of rewards that confirm competence, support skill development, and enable future achievement (Amabile 1997:18) One inconsistency with this stance is the belief that the successful implementation of creative ideology requires the input of a range of individuals working in teams. However, other research identifies how the entrepreneurial microenterprise, consisting of ten or less people, with often only one main decision maker, can also utilize inventiveness in order to create competitive advantage in the marketplace (Cook 1998; Fillis 2002). Those organizations which are prepared to recognize creative achievement are subsequently likely to exhibit further creative behaviour. An entrepreneur often has to make decisions which are influenced by the organization's resources, but decisions are also often made irrespective of the resources available via the progression of intuition. The entrepreneur must demonstrate strong leadership by shaping business strategy and motivating employees via creative thinking (Darling et al. 2007; de Jong and Den Hartog 2007). A leadership style modelled on democracy and participation facilitates inventiveness (Nystrom 1979) and a leader's vision is an important ideal-type in managing creative individuals (Locke and Kirkpatrick 1995; Frisch 1998; Becherer et al. 2008). This vision must be communicated through appropriate informal and formal channels and across all levels of management. An organizational culture which facilitates risk taking is also capable of enhancing creative achievement (Amabile 1988). By owning a problem through self initiated activity, inventiveness can lead to enhancing intrinsic motivation (Robinson and Stern 1997). The entrepreneur is more prepared to challenge existing applications and implement paradigm shifts when needed, rather than maintain the status quo.

**RESEARCHING ENTREPRENEURIAL INVENTIVENESS**

Inventiveness can be used to deal with the ambiguity and uncertainty in decision making by matching the nonlinear responses of the entrepreneur to that of the business world. Uncertainty has not tended to be modelled in investigations of inventiveness and social networks, although it is very much part of an entrepreneur's environment (PerrySmith and Shalley 2003). However, within new product development progressions, it does receive attention in terms of moves to reduce it in order to secure the desired commercial effects. Inventiveness can also contribute to dealing with ambiguity. While uncertainty refers to a lack of information, ambiguity refers to the existence of multiple and conflicting interpretations regarding an organizational situation (Kijkuit and van den Ende 2007). It can be proposed that the entrepreneurial manager and entrepreneurial organisation is much better placed to deal with these circumstances than their conservative counterparts. A variety of quantitative and qualitative methods have been adopted in order to research inventiveness; for example, there are manifest function in the construction of multivariate models of inventiveness in attempting to explain its impact but its often intuitive and intangible nature also lends itself to qualitative enquiry. Much inventiveness research focus on specific aspects such as the qualities of the creative person, the creative product, the creative progression and the creative environment, rather than investigating inventiveness from an holistic perspective. There are, however, also particular methodological benefits of this wider viewpoint in terms of identifying patterns of similarity between creative people working in particular fields (Mace 1997). The creative activities of visual artists have been investigated using a qualitative approach in order to reach an understanding of the interactive and mutually dependent nature of the influencing ideal-types of inventiveness: It was thought that a qualitative examination of the progression of art making through the verbal reports of creatively active people might yield new and valuable information regarding inventiveness. The benefits of adopting a qualitative approach include the ability to] capture the nature and meaning of creative experience from the perspective of the research participants themselves, rather than a measurement of frequency of responses or events….such an approach would provide theory that was driven by the research participants themselves, thus providing additional, and possibly insightful, material about the construct inventiveness (Mace 1997:266). Evaluating the inventiveness of entrepreneurial artists can uncover data which is also of use to entrepreneurship development researchers in general. Visual artists, for example, tend to spend long periods of time engaged in creative problem-solving strategies. Ecker (1963) generalized the progression of making art as a problem solution problem continuum and Fillis and Rentschler (2006) have shown how this notion can be applied to the field of entrepreneurial marketing through their biographical analysis of the entrepreneurial artists Salvador Dali, Vincent Van Gogh, Pablo Picasso and Andy Warhol. A work of art serves as a biography of an artist's life, providing the viewer with insight into their creative personality. In the same fashion that products are given meaning by the way in which they are positioned in the marketplace, the artist gives meaning to the artwork. In both cases, there are also social and economic forces which impact. The main thrust of this examination is that the creative philosophy of the artist can be compared similarly to that of the entrepreneur (Fillis 2004; Fillis and Rentschler 2005). Even though the creative progression is complex, decision making is common to all types of creative performance (Cawelti et al. 1992)

It is proposed that investigation of the artistic decision making progression can provide insight into creative decision making generally Taking a psychological perspective, inventiveness can be examined from cognitive, social and personality points of view (Woodman and Schoenfeldt 1990), thereby gaining insight into entrepreneurial thought progressions. Other important ideal-types include motivational, attitudinal, social and environmental aspects (Runco 1993). Magyari-Beck (1990) believes that the 4Ps interpretation of inventiveness is limited since it focuses on inventiveness solely from a psychological perspective. The link with creativity, and hence entrepreneurship development, must also be considered, alongside personal, historical, cultural, organisation and group influences (Boden 1992; Nayak 2008)

It is proposed that instead of focusing solely on the creative individual, it is better to adopt an holistic approach to understanding creative entrepreneurship development. Nayak talks about the use of an operating logic or ‘feel for the game’ when searching for creative solutions. This matches the intuitive abilities of the entrepreneur as part of his or her wider competency spectrum. Nayak believes that the literature on inventiveness can be divided into the levels of the individual and the organisation but this perspective omits the wider environmental and social ideal-types which also influence inventiveness. He also dismisses the value in researching poets, artists and scientists in informing understanding of managerial inventiveness but such an approach has been found to be of value to entrepreneurship development research; for example, Fillis (2007a) has carried out a biographical approach to understanding inventiveness in entrepreneurship development which uncovers valuable data on the individual but also grounds the findings longitudinally in the social world. There is also a growing body of work within management studies which analyses the manager from an artist perspective which is relevant to entrepreneurship development (Degot 1987; Brownlie 1998; Monthoux 2004). Rather than reducing management activities down to economic aspects alone with managers and their actions displaced to the background, the manager can be visualised as the creator of acts of management. Both 14 management application and research can be thought of in terms of styles or schools where different, and even opposing forms are evident, from the autocratic to an entrepreneurial approach. Instead of thinking outside of the box, Kupp and Anderson (2009) advocate thinking outside of the canvas as they examine the artistic managerial qualities of the artist Joseph Beuys. He identified three levels of inventiveness: the active form of thinking, or personal inventiveness; the sculptural theory or progression inventiveness; and social sculpture or collective inventiveness. Kupp and Anderson note that when routine solutions are not suitable for addressing strategic, leadership and other organizational issues with no precedents, there should be a quest for non-routine creative solutions. Grounded in the Austrian economics school and the uncertainty involved in economic decisions, together with the subjective perception of opportunity (Kirzner 1973), Mahoney and Michael (2005) develop a subjectivist theory of entrepreneurship development where individual inventiveness, discovery, surprise and learning are central components. Kor et al. (2007) further embrace individual inventiveness as they seek to construct a subjectivist theory of entrepreneurship development grounded in the resources, skills and knowledge of the individual as he or she seeks to discover and create.

This subjectivist stance promotes a stochastic perspective of entrepreneurship development which centers on random events, uncertainty and ambiguity, rather than planned, objective interpretations (Boettke 2002). Such an approach seeks to reflect the reality of entrepreneurship development in application where the future is unknown. The research paper now develops a detailed analysis of additional themes within inventiveness research which are relevant for entrepreneurship development theory and application, including its impact on personality and cognitive style and the subsequent implications for decision making, the progression of inventiveness, inventiveness and biography, the motivation to be 15 creative and the impact of inventiveness in business generally. The research paper also assesses how we might best model, measure and test for entrepreneurial inventiveness.

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## INVENTIVENESS, PERSONALITY AND COGNITIVE STYLE AS IDEAL-TYPES IN ENTREPRENEURIAL DECISION MAKING

Examining inventiveness from a psychological perspective signals its scientific connection, while also providing a link to entrepreneurship development where exploration of constructs such as personality, cognitive style and trait theory support to uncover how inventiveness contributes to entrepreneurial decision making. Ward (2004) investigates the relationship between cognition, inventiveness and entrepreneurship development, remarking that successful ideology occur as the result of a balance between the new and the familiar in order to ensure that radical ideology are not rejected. However, inventiveness is concerned with both incremental steps and paradigm shifts, so radical ideology should not be dismissed. Ideology, however, cannot be created at will and often emanate from the fringe of consciousness, rather than as the result of linear rational thinking (Dasgupta 1994). Utilizing a network perspective, useful ideology tend to be the result of having non-redundant and heterogeneous contacts which permit ideology generation through the combination of diverse information (Burt 2004). Non-redundant refers to contacts which are only related to the individual in question but not to each other, while heterogeneous contacts represent different functional backgrounds. Ward's perspective goes some way to explain why most new products are really only line extensions, rather than totally new entities (Kuczmarski 1996). Some of the techniques advocated include analogy, or the application of structured knowledge from a familiar domain to a new or less known domain (Gentner et al. 2001), as well as conceptual combination;

*When two previously separate concepts or images are merged into a single unit, novel properties can emerge that were not obviously present in either of the separate components, and that the effect is particularly strong for dissimilar or divergent concepts. Such novelty can be exploited to develop new product ideology or market niches.*

This closely relates to the notion of transmutation of thought (Warhol 1975) and bisociation, while analogy has connections with the use of metaphor in rationalizing uncertainty (Cornelissen 2006; Fillis and Rentschler 2008). As with metaphorical construction, analogy works best when there is a deeper level connection between the domains, rather than merely at the surface level. These techniques work because in reality individuals do not make linear rational decisions when problem solving. Hypothetical generalisation of the relationship between inventiveness and personality tends to take one of three routes: explaining inventiveness by utilizing personality theories; examining the personality and biographical characteristics of well-known creative individuals and their activities in different fields; and focusing on a small number of particular personality dimensions (Woodman and Schoenfeldt 1990). Personality theory is used since it would be expected that any such theory should account for creative behaviour, as well as other behaviour types. Psychoanalytical theorists view inventiveness as emerging from the unconscious or preconscious while humanistic theorists relate inventiveness to self-actualisation. By examining biographical information and identifying details of any personality characteristics contained within it, future creative behaviour can be understood and even predicted. Barron and Harrington (1981:453), for example, identified the following creative characteristics following a fifteen year long research programme: …a fairly stable set of core characteristics (e.g. high valuation of aesthetic qualities in experience, broad interests, attraction to complexity, high energy, independence of judgment, autonomy, intuition, self-confidence, ability to resolve or accommodate apparently opposite or conflicting traits in one's self concept, and finally, a firm sense of self as 'creative') continued to emerge as correlates of creative achievement and activity in many domains.

Many of these ideal-types are also firmly rooted in the entrepreneurship development literature where decision maker personality impacts on the future direction of the organisation (Lau and Schaffer 1999; Williams 2004; Fillis and Rentschler 2006). Fillis (2007a) identifies a set of creative entrepreneurial competencies and philosophies which appear stable over time and which should be incorporated into subsequent modelling of the entrepreneurial decision making progression. These ideal-types include self-belief and ambition, utilization of creative business networks, high motivational levels, intuition, strong communication skills, ability to visualization problems, flexibility and the ability to break down physical and perceptual barriers. Other contributing ideal-types include the adoption of a variety of problem solving styles and divergent thinking. The ability to make associations between previously unconnected domains also draws on cognitive ability, or the capacity to perceive, reason or use intuition, something which the creative entrepreneur is particularly good at doing. Inventiveness can also be judged in terms of the amount of imagination utilized in solving problems (Piaget 1962; McFadzean 1998). Imagination integrates with intelligence as an individual develops from child to adult. Throughout the developmental progression, imagination increases, with inventiveness and intelligence combining to encourage the generation of more productive activity: P6: It can therefore be proposed that the entrepreneur exhibits more imagination than his or her conservative counterpart.

The personality of an individual consists of a unique pattern of traits which ensures that each individual differs from another. Behaviour traits consist of aptitudes, interests, attitudes, and temperamental qualities. Creative personality is determined by the trait patterns which shape the characteristics of creative persons (Guilford 1950). Inventiveness as a trait focuses on issues such as locus of control, or the impact of internal and external influences on the outcomes of actions, self-esteem, dogmatism and narcissism. Examining inventiveness from a trait perspective alone can have limited impact, given that the social environment has also been shown to impact upon creative behavior (Amabile 1998). A psychometric approach to understanding inventiveness assumes that it is a measurable mental trait, in the same manner as intelligence and the focus tends to be on measuring divergent thinking (Petrowski 2000). Positive personality traits of creative individuals include high levels of energy, attraction towards complex and novel phenomena, openness to ambiguity, willingness to be open-minded and being persistent in adverse conditions (Mintzberg et al. 1976; Feist 1999). These ideal-types are also located within the entrepreneurial personality. Insight into the creative personality of the entrepreneur can be achieved through the adoption of biographical research which is capable of uncovering data which would not necessarily be identified using the survey or interview method alone. Approaches used include the analysis of the allotted space in biographical dictionaries for each individual and the construction of a longitudinal approach to understanding inventiveness through biographical analysis of the individual, from their birth, socialization, through to establishment and expansion of the business and beyond into later life. Recent work relevant to entrepreneurship development has focused on examining data in the form of the biography, or 'story', of the organisation and its managers where both historical and current data can be compared and contrasted (Carson and Carson 1998; Gabriel 2000).

The adoption of a longitudinal research approach is one way of securing an in-depth appreciation of the creative entrepreneur and the world in which he/she is located. The manifest functions of this technique include the ability to triangulate data on personality as well as around social, economic and historical dimensions. Biography itself is a creative medium, in terms of the way in which the story of the individual, organisation or other entity is told. This and other narrative techniques can be used to rethink entrepreneurship development through their juxtapositioning with the arts and humanities; for example, researchers have interrogated literature and other narrative forms as entrepreneurial data sources. Biography or life history can strengthen our entrepreneurial knowledge through its ability to explore the sociological imagination (Downing 2005).

**THE PROGRESSION OF CREATIVE ENTREPRENEURSHIP DEVELOPMENT**

Entrepreneurial inventiveness can be generalised as a progression occurring in an individual who has been shaped, in part, by a range of social ideal-types (Amabile 1996; Perry-Smith and Shalley 2003). A distinction can be made between conscious and unconscious progressions of inventiveness (Rothenberg 1979; Eysenck 1996). Attempting to measure its conscious elements is challenging but assessing its unconscious contributors is particularly intricate, given the many intangible dimensions involved. The creative progression has been visualised as involving a number of stages: The first stage is problem identification, during which the problem solvers recognise, define, and attempt to understand the problem or the opportunity facing them. The second is preparation, during which the problem-solvers gather information and other resources necessary to tackle the problem or pursue the opportunity. The third stage is response generation, during which various ideology for solving the problem or pursuing the opportunity are designed. The fourth stage, validation and communication, involves the consideration of 20 the ideology generated, selection among them, and formalisation or communication of the selected approach (Amabile 1997:23).

The creative act can be generalised as an extended, variable progression rather than something occurring at one particular point in time (Motamedi 1982; Sapp 1992). Csikszentmihalyi (1999) interprets inventiveness as a systemic progression consisting of individuals originating the idea, the gatekeepers who represent the field or society, and the culture or domain within which inventiveness occurs. These ideal-types then interact in order to interrogate and validate the new ideology. Viewing inventiveness as a progression is valuable but it also suggests that a certain sequence of events is inevitable. In reality progression may not be linear and some stages may be leapfrogged or omitted altogether. Alternative suggestions based on holistic and network approaches now appear viable as prerequisites to understanding inventiveness in entrepreneurship development; for example, improved understanding can be reached by focusing on a more multilayered, holistic conceptualization where environmental, cognitive, competency and motivational inputs shape creative application.

**INVENTIVENESS, MOTIVATION AND ACTUALISATION OF THE ENTREPRENEUR**

Inventiveness may be part of an individual's innate makeup but only a small proportion of the population fully actualize their creative potential since not everyone is motivated to be creative (Maslow 1968; Amabile 1983).

It can be proposed that entrepreneurs are more likely to actualize their creative potential than their conservative counterparts because of their predisposition to seek out new challenges. There are also crucial differences between intrinsic and extrinsic creative motivation which explain behaviour determined by internal and external drivers: People will be most creative when they are primarily intrinsically motivated, by the interest, enjoyment, satisfaction, and challenge of the work itself; this intrinsic motivation can be undermined by extrinsic motivators that lead people to feel externally controlled in their work (Amabile 1998:1157). When interviewing entrepreneurs about their motivations concerning business development it is clear that, although increasing their profit levels is a ideal-type, being able to shape and grow the business and its workforce are also key motivating ideal-types. Intrinsic motivation is essential in channeling the passion and interest of creative personnel in an organisation who carry out a task because they feel they enjoy the challenge of it. Individuals are extrinsically motivated when an additional goal is reached which is separate from the act of doing the work, or when a constraint imposed by an extrinsic source is overcome. Those individuals who are more inclined to be intrinsically motivated exhibit behaviour which is heavily involved in the activity at hand since they are free from extraneous concerns about goals extrinsic to the activity itself. It would be expected that this is the case for the entrepreneur. They exhibit playfulness with their ideology because of their freedom to take risks and ability to explore new cognitive pathways.

Mainemelis and Ronson (2006) consider how ideology are generated through the interaction of play and inventiveness within organizations. Play supports to stimulate the cognitive, affective and motivational aspects of the creative progression and there is even a case for considering the manifest function of play as part of inventiveness for its own sake. Here, unbounded searching for solutions to emerging problems can contribute to ideology generation and even contribute to new strategy formulation instead of adherence to the usual linear, rational path. Individuals may even experience positive affect while carrying out their work. Those who are mainly extrinsically motivated tend to be concerned with the extrinsic goal to be attained and will not be as deeply involved in the activity. They feel less able to take risks and will rely more on well-worn cognitive pathways and experience less positive affect while working (Amabile et al. 1990). In new venture start-ups, extrinsic motivation issues might focus on heightened external visibility while intrinsic motivation could concern the wishes to develop a business based on certain lifestyle ideal-types (Fillis 2007a).

**CREATIVITY, INVENTIVENESS AND THE ENTREPRENEURIAL LEADER**

Today, inventiveness appears more important than ever before, with it being seen as a critical success ideal-type for organizations (Basadur and Hausdorf 1996). The understanding of attitudes towards inventiveness and the promotion of creative thinking within the organisation are pre-requisites to facilitating inventiveness in all employees. Although effectiveness and efficiency have long been generalized as central organizational requirements, inventiveness is now also deemed a core success ideal-type, with organizational inventiveness resulting in higher levels of quality and customer satisfaction. The nature of the business environment is changing, with more and more turbulent conditions being experienced (Agor 1991; Mason 2007). Creative leadership is often deemed more appropriate than conventional managerial methods in the quest to deal with these nonlinear and often unpredictable environmental conditions. In addition, managerial judgement is now generalized as just as relevant a decision making competency as the deployment of more conventional business skills centering on planning and strategy (Brownlie and Spender 1995; Brownlie 1998). Intuitive decision making is deemed an appropriate alternative response to paradigm shifts in the contemporary business environment, where the generation of a range of alternative directions can be constructed through appropriate visionary leadership and creative entrepreneurial behaviour. Although inventiveness has yet to be fully embraced in the business world due to varying attitudes towards risk and paradigm shift, organizations of all sizes are now realizing the benefits of developing a creative orientation within a culture of globalization as a ideal-type in the longer term wellbeing of the organisation. This orientation should then lead to openness to creativity and acceptance of new ideology which can benefit the company (Salford 1995; Berthon et al. 1999). The majority of firms are small, and the majorities of these are microenterprises employing ten people or less where business expansion and behavior is often influenced by a single owner/manager who may not necessarily be disposed towards encouraging creative thinking and application (Storey 1994; Bridge et al. 2003). However, individuals in all sizes of organisation who exhibit entrepreneurial tendencies are much more likely to embrace inventiveness than those who do not demonstrate entrepreneurial ability (Bennett 2006; Day et al. 2006). Inventiveness has been identified as a core organizational competency (Palus and Horth 2002) and the inventiveness of key decision makers is of vital importance in shaping future business success. Organisational, customer and technological competencies have all been found to contribute to heightened innovative performance through their ability to extend existing strengths while also shaping new skills (Teece et al. 1997; Lokshin et al. 2009). There are also connections between inventiveness, creativity and entrepreneurship development in the development of a product. The product is shaped by the tangible outcomes of inventiveness but it is also influenced by the creative progression and creative ability of those involved in its production (Magyari-Beck 1990). This also has an impact on the level of creativity in the organization. An entrepreneurially led organisation should have effective lines of communication and should also be prepared to act on challenges identified during employee/manager/customer interactions.

**MODELING, MEASURING AND TESTING ENTREPRENEURIAL INVENTIVENESS**

A number of inventiveness models have been constructed but, to date, very few have been able to account for the subjective nature of creative activity. The componential model of inventiveness (Amabile 1988) utilizes the dimension of organizational motivation to innovate as a supportive structure for inventiveness and creativity throughout the enterprise. Other relevant ideal-types include the resources available to assist creative work such as sufficient time and appropriate training, management applications and the allowance of freedom or autonomy in carrying out challenging work through the construction of work teams with contrasting skills. Woodman and Schoenfeldt (1990) develop an interactionist model of creative behaviour which integrates personality, cognitive and social psychology perspectives. Antecedent conditions such as early socialization experiences, learning, family socio-economic status and gender are generalised as precursors to the current attitudes and behaviour of the individual towards inventiveness. Their model promotes the belief that inventiveness is fundamentally progression led but there is now ample evidence as shown in this research paper to show that this is not the best way to view entrepreneurial inventiveness. West (2002) develops an integrative model of creativity and inventiveness implementation among groups at work, noting that the environment can hinder inventiveness but that any uncertainty can serve to drive creativity. Lubart (2001) evaluates a number of progression-led inventiveness models, noting that the basic four stage model may need to be superseded, as also noted earlier in this research paper.

Eysenck (1996) uncovers several dimensions of inventiveness which support in attempting to measure it. These include viewing it as involving the production of new and original content, as a creative product which can involve more than just creative characteristics, as individual inventiveness and as a creative solution to problem solving. Inventiveness has also been measured using tests of divergent thinking, attitude and interest inventories, personality inventories, biographical inventories, ratings by teachers, peers and supervisors, the tangibilising of inventiveness through the creation of products, the hypothetical generalisation of eminent people and self-reported creative activities and achievements (Hovecar and Bachelor 1989; Creigh-Tyte 2005). Cropley (2000) believes that inventiveness tests are actually only measures of creative potential due to their inability to account for ideal-types such as technical skills and opportunity. Unsworth (2001) develops a typology of creative states or orientations which supports in understanding how creative individuals behave in different ways, rather than being seen as a homogeneous group. Responsive inventiveness is externally shaped where the individual reacts to the problem being posed. Expected inventiveness occurs when there is a need for a creative solution to a particular problem driven by external motivation. Contributory inventiveness occurs when an individual decides to engage in a creative task even though he or she has no direct initial involvement. Proactive inventiveness is driven by an internal motivation to seek out problems to solve. This last category appears to have the best fit with entrepreneurial inventiveness where the owner/manager actively seeks out business challenges. This orientation also matches the notion of the proactive personality (Bateman and Crant 1993) and the concept of personal initiative (Frese et al. 1996). These different orientations can be compared with the four creative states found by Fillis (20007b) in a hypothetical generalisation of inventiveness in craft firm internationalization. Differing forms of inventiveness are located in the four craft firm types depending on the owner/manager's attitude towards inventiveness. Some choose to work in the craft industry because of the type of lifestyle involved and are unwilling to sacrifice this in order to expand the business. These creative types are called life-stylers. Another type is the business-oriented entrepreneur who is willing to take risks with both the business and the product, while recognizing the importance of developing a customer base. The third type can be described as an artist/designer or idealist who is unwilling to view the craft as a product but as a creative object. They take risks as far as the craft itself is concerned in order to break new ground and they can be innovative and certainly creative with the craft product. The fourth creative type, the late developer, enters the industry much later than the others, having gained previous work experience in unrelated areas before making a career paradigm shift. Researchers of entrepreneurship development should be interested in the concept of inventiveness since it is often associated with unusual solutions to solving problems. Inventiveness, and the resultant creativity, often develops through juxtapositions of previously unconnected fields through the freedom to think in a non-linear, unblinkered fashion. Although logical thinking does have its purposes, continual adoption of this often sequential approach serves to omit many potentially useful associations which might otherwise be formed by following flexible, exploratory, non-predetermined paths. If we choose to adopt the social psychological perspective of Amabile and others in terms of how we view inventiveness, this then provides a useful connection across domains, from the sciences to the social sciences and entrepreneurship development. Many measures of inventiveness and other associated dimensions such as entrepreneurial orientation have been constructed and operationalized but these tend to be quantitative, tangible attempts at capturing seemingly measurable dimensions. The reality, however, is that much of our behaviour is shaped by intangible, implicit dimensions based on mood and feeling, sensory experience and elements of the unconscious (Davis 2009): P10: It is proposed that an entrepreneurial environment is more likely to result in impacting on mood in a positive sense, and therefore inventiveness, than a conservative environment. Also, we cannot reasonably hope to measure intuition, for example, as a dimension of inventiveness solely through the application of Likert-type attitudinal scales (Likert 1932; Braunsberger and Gates 2009).

## CONCLUSIONS AND AREAS FOR FUTURE RESEARCH

The holistic conceptualization of inventiveness in entrepreneurship development as shown in This impacts on a number of different levels, from the individual, team, organisation through to the particular industry and beyond. In order to realize the full creative potential of the enterprise, in-depth understanding of problem - solving and decision - making activities which embrace ideal-types such as ambiguity and uncertainty should also be achieved. A research agenda needs to be developed which accounts for both scientific and artistic ways of knowing which are influenced by cross disciplinary and diverse domains. This research paper has suggested a number of potential avenues outside the conventional boundaries of entrepreneurship development research which can support inform future research activities and it is hoped that other researchers will continue to interrogate other fields with creative potential.

Increasing globalisation effects drive the need for greater inventiveness within a marketplace with increased levels of opportunity but also with heightened levels of competition. A creative entrepreneurial response represents the best chance of capitalizing on these challenges. This research paper has shown that there is a clear link between inventiveness, entrepreneurship development and related areas such as creativity in terms of establishing competitive advantage for the organisation. It should also be noted that profitability should be measured not just in monetary terms, but also in relation to dimensions such as social wealth or capital. An entrepreneurial contribution to inventiveness can assist in breaking the rules of convention, or at the very least, stretching their boundaries in order to achieve both incremental and ground breaking success. Entrepreneurial inventiveness can be informed by a wide variety of disciplines, rather than just within the business world; for example, this research paper has shown how interrogation of domains such as the art world, biography and psychology can inform understanding. So it is important to adopt a more holistic perspective when attempting to grasp the essence of entrepreneurial inventiveness, rather than attempt to view it solely as a progression led phenomenon. Entrepreneurship development matches the flexible, exploratory paths of creative discovery where solutions do not necessarily need to be complex. Entrepreneurial ideal-types overlap with many creative characteristics such as curiosity, self confidence, high energy levels, risk taking and vision. Entrepreneurial inventiveness impacts throughout the lifetime of the entrepreneur, and not just during the span of the business. Success is stimulated through the use of juxtapositioning and bisociations of ideology from diverse and often unrelated domains which then impact on decision making. Although there are undoubtedly a number of extrinsic motivational ideal-types which affect attitudes towards inventiveness, entrepreneurial inventiveness is largely driven by intrinsic dimensions concerning the tasks being performed in the enterprise. Entrepreneurial inventiveness should be concerned with the continual creation of alternative solutions to problem solving and identification of new challenges. It should also be seen as a competitive strength and portfolio of competencies. Adopting an entrepreneurial approach to inventiveness also supports to deal with uncertainty and ambiguity in decision making and within the external environment.

Rather than ignoring these dimensions, it acts to embrace this unsureness as part of the everyday entrepreneurial climate. In terms of future research, if we are to improve our understanding of inventiveness from an entrepreneurship development perspective, we need to consider the adoption of alternative methodologies which are capable of uncovering previously undiscovered data. Blackburn and Kovalainen (2009) note the reservations by many researchers to adopt approaches which depart from both functionalist paradigms and quantitative approaches and yet by researching inventiveness in entrepreneurship development, this should serve to stimulate interest in other methodological avenues. The continued utilization of common techniques such as the survey and in-depth intergeneralisation have their uses but researching inventiveness must involve much more than just asking set questions or exploring a range of themes. Inventiveness data collected using a biographical approach, for example, can be triangulated with the more usual approaches in order to check for stability in the constructs being analyzed and in terms of generating more holistic and insightful understandings (Young 1988; Roberts 2002; Fillis 2007a).Biographical insight can be used to construct the longitudinal story of the entrepreneur

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and the organisation while also identifying the impact of social and historical ideal-types on shaping inventiveness. Inventiveness is potentially most useful within the smaller enterprise as a way of overcoming barriers to acquiring resources and in terms of deriving alternative and lower cost solutions to solving problems. Many of these organizations have specialist skills relating to their core products and services but do not have the expertise or the time to develop formal ways of generating future strategies as occurs in the larger organisation. This being the case, understanding inventiveness as leverage to lower cost but no less useful solutions is crucial to future economic success. Future research should embrace more innovative approaches to its understanding which sometimes conflict with more mainstream methodological approaches. It is this conflict and the creation of juxtapositions between previously unrelated fields which can result in new insight and more valuable directions of enquiry.

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# REGIONAL-CULTURAL PERSPECTIVES, ENTREPRENEURSHIP AND ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES: AN ANALYSIS WITH REFERENCE TO GENDER SENSITIVITY IN SMES

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## ABSTRACT

*For the past couple of years entrepreneurship development is considered as the priority area in the development policy in many countries, especially in India. The young entrepreneurs are engaged in varied form of small and medium scale enterprises ranging from research study to electronics, engineering to electrical, textile to metal and pipe industry, construction to food processing, to handicrafts. The interesting fact is that the entrepreneurial ventures are making provision of more business options not only for men, but also for women, especially in rural and semi urban regions. Considering this trend, an analysis is conducted to analyze, what exactly motivate women entrepreneurs to get into small and medium scale entrepreneurial ventures. Relating entrepreneurship with entrepreneurship development training institutions, it is hypothesized in this an analysis that the identification of regional-cultural perspectives among women may support entrepreneurship development training institutions to tailor made their entrepreneurial program in tune with appropriate pedagogy and approach. In order to conduct t an analysis Footwear industrial region is selected since it is populated with several small and medium scale enterprises. The respondents were the entrepreneurs who run small-scale industrial units of Footwear industrial region in Bahadurgarh. Out of total population of 5, 345 small scale entrepreneurs have been taken as sample size. The data collected were analyzed on the basis of Descriptive Statistics, Correlation, Regression and Kruskal Wallis Test. The findings of this research study show the major attributes which influence the motivation of women entrepreneurs in small and medium scale enterprises and its close relationship with the entrepreneurial attributes. An analysis also suggests some measure for the entrepreneurship development training institutions in order to make its pedagogue support their entrepreneurial development efforts of the country*.

**KEYWORDS** *regional-cultural perspectives, entrepreneurship and entrepreneurship development programmes.*

## INTRODUCTION

The term entrepreneur was originated in French Economics as early as 17th and 18th centuries. The concept entrepreneur has shown its close association with general understanding of starting a business has much relevant meaning in the past. But its general meaning has shifted to wider application into an area of providing high yield through better productivity for economic development. Entrepreneurship has been obtained a great deal of focus over the past years considering the significant benefit realized by small and medium firms in overall development of national economy. Entrepreneurship is a multidimensional phenomenon that cuts across disciplines. There is no universal theory of the phenomenon. Many theories of entrepreneurship are coming from different schools of thought, with many authors emphasizing different attributes to explain it. Among these attributes are culture (Gadgil, 1954; Jenkins, 1984; Shapero, 1984); personality (McCelland, 1961; Brockhouse and Horwitz, 1986; Sexton and Upton, 1990), marginality (Geertz, 1963; Shapero and Sokol, 1982; Brenner, 1987), and intentionality (Learned, 1992; Katz and Gartner, 1988). It has been reported by many research scholars recently that in general (e.g. Zimmerer and Scarborough, 2001), there has been a growing interest and research that focused on women's entrepreneurship (e.g. Boyd, 2005; Bruni et al., 2004; Brush et al., 2006; Lerner and Pines, 2010; Mulholland, 1996; Pines, 2002; Pines and Schwartz, 2008). Until the late 1970s, the role of women entrepreneurs was rarely considered (Humbert et al., 2009). Nowadays, however, as Carter and Shaw (2006) noted, research on entrepreneurship is moving from looking at whether gender makes a difference to how it makes a difference.

It has been recognized that small and medium enterprises have been the major force in employment creation, innovation and economic development (Gordon, 2000). Further, it may be good to emphasize that out of many SMEs, a good proportion of them are women-owned or operated and women do not only form majority of the work force in certain sectors of the economy, but their businesses have also influenced in one way or another the structure of all our economies. Self-employment and women in entrepreneurship has also been growing in less developed economies, as a means for women to survive themselves and oftentimes to help support their families (Gordon, 2000). The key word circling around development of economy in many countries is entrepreneurial entrepreneurship development programmes. The significance of entrepreneurship and entrepreneurial entrepreneurship development programmes ranges from commencing a small scale unit to build up big business concerns. Incorporating new entrepreneurial modules in current entrepreneurship development training system, it not only pave ways to development of economy but also gives more employment opportunities to young entrepreneurial aspirants who startup small scale ventures, especially women youth. Relating current topic of an analysis to Indian scenario, the scope of entrepreneurial entrepreneurship development programmes and training is having much scope in rural and semi urban localities where many small and medium scale industrial firms operate. Indian small and medium scale industrial scenario observes more women participation both as employees and employers recently. Hence this particular an analysis concentrates more on scope of entrepreneurial entrepreneurship development programmes, by conducting a case based research in Footwear industrial region in Bahadurgarh, India.

## THEORETICAL BACKGROUND ENTREPRENEURIAL ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES

Entrepreneurial entrepreneurship development programmes is one of the sizzling regions for academic institutions and business schools in recent days. Major objective of entrepreneurial entrepreneurship development programmes is to provide .16 stakeholders with adequate knowledge, skills and aptitude that to engage them in entrepreneurial ventures of various sectors. The academic institutions are paving many ways especially women folk to join entrepreneurial training programs. Women folk are motivated to peruse their opportunities to enter into a Entrepreneurship profession in order to satisfy many aspects like independence and willingness to be free, recognition and gain of acceptance and appreciation, professional achievement, a means to get better the wellbeing of their families and finance the entrepreneurship development programmes of their children. Women motivation to enter into entrepreneurship lies with more reasons like learning business knowledge and skills, access to new markets & more financial options, information about the support services and how they can earn income to their families. Many small and medium sectors are making provision of women entrepreneurial aspirants' adequate opportunity to enter into entrepreneurship and be successful in their ventures. The present an analysis focuses on various regional-cultural perspectives of women in rural and semi urban regions that influence their entrepreneurial choice and there by disseminate information to various academic institutions in order to orient their curriculum and program in tune with entrepreneurial aspirants.

**ENTREPRENEURIAL DEVELOPMENT**

Women entrepreneurial development is one of the important area majority countries has been focus upon as a part of over all Human Resource Development. It is well ascertained by policy makers across the courtiers that strategic development of an economy required equal participation and equal opportunities to all sect and genders. Entrepreneurial development is one the significant factor for sustainable socio-economic development. Especially, development of women is inviting special significance because many small and medium firms are well operated through women and though it is less recognized. In order to ensure better support from various levels, it is necessary to understand, what are the regional-cultural perspectives which influence women to become entrepreneurs? Contemporarily less research has been conducted in rural and semi urban regions that give specific focus on women entrepreneur's regional-cultural perspectives. Hence it is necessary to explore what are the attributes which influences the motivation of women and to what extend it influence their entrepreneurial aspirations? How rural women looks on entrepreneurial opportunities and what are their concerns to enter into such ventures? This particular research tries to understand the regional-cultural perspectives of women which influence on entrepreneurial attributes, and how it facilitate the educators and entrepreneurship development training institutions to develop infrastructure, design programs and course ware, ensure training and development activities that in tune with the requirement of entrepreneurial entrepreneurship development programmes in rural and semi urban regions where small and medium scale industries are more located.

**MODELS FOR ENTREPRENEURSHIP**

A model of the attributes motivating the entrepreneurial process was achieved by Shane et al. (2003). To establish the link between personality attributes influence on entrepreneurship intention many studies of 'entrepreneurship intention' often used 'behavioral intention' models. Many models have been further used to explain the behavioral intention. Shapero□s (1982) propounded “Entrepreneurial Event” model which is similar to Ajzen□s (1991) “Theory of Planned Behaviour” model (Nabi and Holden, 2008). The model has mentioned three components of entrepreneurship intention in Shapero□s model. These attributes are mentioned as perceived desirability, perceived feasibility and a propensity to act. The perceived desirability indicates the attractiveness to start up a (Krueger, 1993). Perceived feasibility, on the other hand, indicates the degree an individual feels that he/she is capable in starting a business (e.g: lack of finance or entrepreneurs□ skills) (Krueger, 1993). The propensity to act indicates the individual□s willingness to act on decisions (i.e to actually start up) (Nabi and Holden, 2008) Muriel Orhan, Don Scott, (2001) identified a number of situations that relate to women□s decisions to become entrepreneurs, namely “dynastic compliance”, “no other choice”, “entrepreneurship by chance”, “natural succession”, “forced entrepreneurship”, “informed entrepreneur” and “pure entrepreneur”. Various researches have come up with varied observations on regional-cultural perspectives as), other pull motivations relate to motivations such as:

1. Independence and willingness to be free of any control or to become one’s own boss; Carter et al. (2003)
2. Recognition and gain of acceptance and appreciation by other people (Nelson, 1968);

3. Self-realization, achievement of the entrepreneurial goals (Fischer, Reuber, and Dyke, 1993);
4. Financial incentives, the desire to gain more and achieve financial success (Birley and Westhead, 1994).

**ATTRIBUTES INFLUENCING ENTREPRENEURIAL MOTIVATION**

Buttner and Moore (1997) and Lerner et al. (1995) have given more importance to womens motivations to start their own businesses (self-fulfillment and personal goal attainment, etc.) as the major reason for women "slow quantitative performance (such as employments creation, sales turnover and profitability) as compared to men. While Carter and Allen (1997) observed that access to financial resources and other financial aspects of business had stronger effects on business rather than choice or intention. Schwartz, (1976) an analysis on twenty female entrepreneurs observed that their major motivations to start a business were the need to achieve, the desire to be independent, the need for employment satisfaction and economic necessity. In addition to that desire to control, need for achievement, to improve the financial situation, desire to be independent and the need for employment satisfaction are also some notable motivating attributes (Scott, 1986). Studies of McClellands classic conceptions of basic needs (McClelland & Winter, 1969) have yielded relatively more supportive findings of certain expected differences. For example, high achievement motivation has been associated with some aspects of venture performance (Begly & Boyd, 1987; Carsrud & Olm, 1986). Stewart et al. (1998) also reported that entrepreneurs were higher in achievement motivation than both corporate managers and small-business owners–managers. According to Gitile et., al. (2008), for many of the younger women (under 20), the "search for independence" was associated with freedom from misery of unemployment and recognition that self-employment offered the only way out. Self-employment was therefore, seen as a long-term career option. These entrepreneurs believed they could create their own career path and liberate themselves from the indignity of poverty and unemployment. Sexton (1980) found that goals in business ownership were same in the need for achievement and independence but differ in terms of economic necessity and recognition than their male counterparts. Estaw (1991) asserts that experience is the best predictor of business success, especially when the new business is related to earlier business experiences. Entrepreneurs with vast experiences in managing business are more capable of finding ways to open new business compared to employees with different career pathways. Most successful entrepreneurs not only possess certain personal characteristics, they have usually served an apprenticeship .18 within the framework of a small business, giving them relevant experience in the business environment (Timmons 1994). Typically, this experience is gained from parents, role models, or employment experiences in small organizations. Undertaking the role of an apprentice helps the entrepreneur to develop a future strategy for establishing a personal venture. Exposure to a variety of experiences and opportunities provides a „safe testing ground for the potential entrepreneur.

The ideal incubator organization is one that is small enough to allow the potential entrepreneur and top management of the organization to work closely together. The small size allows the entrepreneur to grasp the overall operation of the organization and to learn the technologies and many aspects of the business that would not be accessible if the organization were larger (Bowen and Hisrich 1986). Kamal Naser, Wojoud Rashid Mohammed, RanaNuseibeh (2000), in their research an analysis entitled "Attributes that affect women entrepreneurs: evidence from an emerging economy" had found that Financial support from the government especially in the start-up capital is an important factor that motivates women to establish their own businesses. Self-fulfillment, knowledge, skills and experience, including relationship to spouse/father business, are all important attributes in the development of women entrepreneurs. Unlike previous research attributes such social norms, market network, and competition do not seem to be barriers for women in becoming entrepreneurs. In a an analysis by Karim (2001) on women entrepreneurs in Bangladesh, financial problems were the most common problems faced by their women entrepreneurs. Inadequate financing was ranked first, particularly so in rural regions and among small economic units (fewer than 5 workers), all the more so with those located in the household and unregistered sectors. Competition, obtaining quality raw materials, and balancing time between the enterprise and the family were ranked as major start-up problems. Carter et al., (2004), indicates that perhaps the most popular reason for starting a new business, financial success involves reasons that describe an individual□s intention to earn more money and achieve financial security. Cromie (1985) found that the need for autonomy and more money were more important motivating attributes for women entrepreneur. Hisrich and O□Brien (1981) also reported that reasons for women entrepreneurs owning businesses were the formation of initial idea about a product or service, desire for financial independence and the desire to be one□s own boss. Alexandra L. Anna, Gaylen N. Chandlerb, Erik Jansenc and Neal P. Merod (2008) in their thesis entitled Women business owners in traditional and non-traditional industries" revealed that traditional women business owners might have different attributes that contribute to their success than non-traditional owners. Specifically, for the traditional owners, venture efficacies for opportunity recognition and economic management as well as the career expectation of autonomy and money (or wealth) were positively related to sales. Such business are ranging from research studyto electronics, engineering to electrical, textile to metal and pipe industry, construction to food processing, entrepreneurship development programmes to handicrafts and provides more options for women and especially this nature is observed in Bahadurgarh of India. This discussion point has been well supported by the industrial manual that the five Industrial estates of Bahadurgarh .The scenario which discussed above is not much different in Indian villages. So an investigation in to topic is well envisaged. Hence, this particular an analysis thus provides better insight onregional-cultural perspectives influence on entrepreneurial aspirations among women and how entrepreneurship development training in situations can play better role in grooming rural women folk towards entrepreneurship.

**PROBLEM FORMULATION**

In a country like India where diversified classes of people dwell and many remain unemployed and underemployed, the small scale sector has emerged as a major source of employment, by creating more and more employment opportunities per unit of Capital employed. SSI Sector provides employment opportunities to 71 lakhs persons in the 1980-81. It increased to 240.9 lakhs persons in the year 2000-2001. Further it increased to 287.6 lakhs persons and 299.91 lakhs persons in the year 2004-2005 and 2005-06 respectively. During .22 the year 2006-2007 the SSI provided employment to 312.5 lakh persons. Tamil Nadu has contributed much to the growth of Small Scale Industries. There were 420 Small Scale Units in Tamil Nadu in the year 2001-02 which further increased to 449 in 2002-03 and to 490 in 2004-05 ( manual 2006). There is always an increasing trend in the production also. The data clearly indicates the trend towards entrepreneurial ventures which is increasing day by day. But how far the women folk perceive this trend and seek opportunity to become small scale entrepreneurs needs to be evaluated into. What are the attributes that motivate them to become small scale entrepreneurs need to be analyzed into? IT has been reported by some researchers in various countries about the entrepreneurial aspirations of women and attributes contributing to it. But how far it is true among Indian women in relation to entrepreneurial scenario is less researched into. Hence this particular research tries to understand how far the regional-cultural perspectives, especially woman which influence their interest towards entrepreneurial attributes.

**TOOLS OF DATA COLLECTION**

An analysis will consider following tools for the data collection.

1. Questionnaire on Motivational factor
2. Questionnaire on Entrepreneurial attributes
3. Questionnaire on socio-demographic variables.

**DATA COLLECTION**

Data collection was done based on the two instruments specifically developed for this an analysis. Data collection took almost 11 months to get adequate representation of the sample size. Since the nature of the an analysis was very much sensitive, the researcher assured the confidentiality of the data to all women participants who responded in this research. 200 small scale unit respondents were approached initially for responses. Out of which 180 respondents cross checked the confidentiality of information with the researcher and finally 144 were provided the information related to the topic selected. Thus an analysis considered 144 women participants from the industries selected for an analysis.

**OBJECTIVES**

1. To understand the entrepreneurial regional-cultural perspectives among women
2. To analyze the relationship between regional-cultural perspectives and entrepreneurial attributes
3. To analyze the influence of regional-cultural perspectives on entrepreneurial attributes.
4. Suggest the educators and entrepreneurship development training institutions for better entrepreneurial entrepreneurship development programmes and training interventions.

**HYPOTHESIS**

1. The regional-cultural perspectives may have significant relationship with entrepreneurial attributes
2. The regional-cultural perspectives may have significant influence on entrepreneurial attributes

**INDEPENDENT VARIABLE SELECTED FOR THE AN ANALYSIS: MOTIVATIONAL FACTOR SUB VARIABLES OF MOTIVATIONAL FACTOR**

1. Ambition to become an entrepreneur aims, ambitions, desires and drives motivate a person to achieve the destination.
2. Desire to be independent Desire to be independent induces a person to start/run an enterprise.
3. Previous experiences Experience gives self-confidence to a person to start an industrial undertaking
4. Technical qualification Technical qualification makes a person an expert in one’s field. It motivates a person to start a venture.
5. Good market potential Good market potential attracts a person to enter into the field small investment
6. Small investment Small investment in Small Scale Industries motivates a person to start a venture
7. Economic need Maslow’s Need Hierarchy Theory is based on the human needs
8. High profitability A person establishes an industrial undertaking to attain certain objectives – profitability from business
9. Availability of raw materials Availability of raw material in order to produce the goods
10. Government concession Government provides subsidies, concessions and grants as an aid to the persons who are establishing industries

11. Family Business Family business induces a person to enter into the field.

**OPERATIONAL DEFINITIONS ENTREPRENEUR**

Industrial undertaking in which the investment in fixed assets in plant and machinery, excluding land and building, whether held on ownership terms or on lease or on hire purchase, does not exceed Rs.1 crore ( one crore). SME'S The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. (Enterprise and industry publication 2003)

**MOTIVATION**

Motivation in this particular research is the degree to which the women are motivated to enter into entrepreneurship profession.

**ANALYSIS AND RESULTS**

The data collected were analyzed on the basis of Descriptive Statistics, Correlation, regression and Kruskal Wallis Test. SPSS 16th version was used to analyze the data collected. The first hypothesis (H1) indicates that "there may be significant relationship between regional-cultural perspectives of women with entrepreneurial attributes. The table no (3) clearly shows that out of 8 entrepreneurial attributes selected for the an analysis, 5 attributes significantly correlated to regional-cultural perspectives among women. While the other entrepreneurial attributes seldom correlated with regional-cultural perspectives of women. These entrepreneurial attributes viz., Amount of capital invested, Average sales turn over, Average net profit, Year of experience and Generation of business (p=0.01 level), are the one which motivate women to start entrepreneurial ventures. Hence an analysis accepts the first hypothesis selected for the research.

**ANALYSIS ON REGIONAL-CULTURAL PERSPECTIVES INFLUENCE ON ENTREPRENEURIAL ATTRIBUTES**

Further an attempt has been made to explore the relationship between personal variables and the regional-cultural perspectives using the Kruskal- Wallis one way ANOVA. In order to test the significant difference in the regional-cultural perspectives of the Small Scale Entrepreneurs in the Footwear industrial region in Bahadurgarh, based on the 12 different variables of their profile, the Kruskal- Wallis test has been used

The major hypothesis (H2) stated in this research studywas "theregional-cultural perspectives may have significant influence on entrepreneurial attributes." In order to test this hypothesis Kruskal Wallis Test was conducted. The analysis clearly indicates that out of 8 sub variables of dependent variable entrepreneurial attributes, 5 attributes are get highly influenced by 10regional-cultural perspectives among women. The table clearly indicates that the 5 entrepreneurial attributes viz., Amount of capital invested (0.009**), Average sales turn over (0.008**), Average net profit (0.006**), Year of experience (0.006**) and Generation of business (0.002**), are get influenced by the 10regional-cultural perspectives of women. This indicates that these five entrepreneurial attributes are the major inspirational factor among woman to take up entrepreneurial ventures, in this particular an analysis.

**DISCUSSION**

The most important factor that influences any new business entrepreneur is the amount he or she needs to be invested in a new business venture. The requirement of capital for a business venture is same for all kind of businesses and it is not different from Small and Medium Sector Business Ventures. In order to start a small scale business, the new entrants has to think of various expenditures like infrastructure, manpower, machineries, raw materials, capital etc., and has to make the project viable in accordance with the expectations. The present findings indicates similar aspect, capital investment, as the major entrepreneurial factor which get influenced by women motivation to get into new business ventures in Small and Medium Scale Industries. The capital investment is a major decision and it invites risky consequences in case of new venture failures. In order to start a new business venture, one needs to pool capital from financial institutions, governmental organizations, private money lenders, or friends and relatives. It is well pointed out in many countries that the key issues facing new and growing women-owned enterprises in the United States include access to capital, access to information and access to networks. Lee-Gosselin and Grise (1990) also supported this view .28 by indicating that in general, the most common start-up problems seem to be lack of capital. Here, the repayments options are to be thought well in advance before one enters into new venture. In order to repay the finance taken the new entrants has to depend upon sales turn over and the net profit. Both these variables are closely to be evaluated based on expected breakeven point and risk management analysis. Long term safe funding is the major factor which gets influenced by a new entrepreneur to start a Small Scale Business. Need of safe and long term funding is essential in new business ventures because, for a new entrepreneur, these two attributes provide ample time horizon to materialize the market potential for their products/services and capture the business opportunities for better profitability.

In this context, it has been rightly modeled by Douglas and Shepherd (2000) the choice to pursue entrepreneurship as a utility function, which reflect anticipated income, the amount of work effort anticipated to achieve this income, the risk involved, plus other attributes such as the person's attitudes for independence and perceptions of the anticipated work environment, for example the presence of funding or opportunities. Adequate long term funding options are significant factor that influence ones decision to start entrepreneurial ventures. The long term-safe funding options made available through governmental institutions and other financial institution are thus act as regional-cultural perspectives among women entrepreneurs to start the business ventures in Small and Medium Scale Entrepreneurs. May be the adequate support received from governmental institutions and other financial institutions provide better environment to women that to materialize their dream to be independent in their life and act as their own boss by running own firms. This finding indicates that new entrants required better understanding on various financial management and financial operations of SMEs.

Here the role of entrepreneurship development training institutions can be well assessed in making provision of information, guidance, training and educate them to handle capital, income, the risk involved and the business operations related to capital and finance. Just as men, the women entrepreneurs also realize the importance of sales turn over and net profit. Though the personal attributes like desire to become independent and be as their own boss are influencing them, this research indicates the importance they have given to major attributes business viz., sales turn over and net profit. This is a change we observe from past researches that the women entrepreneurs are giving less importance to profitability based on sales. The findings of the present research well pointed out the importance given by women in analyzing market potential, economic need and profitability etc. These finding indicates that just like men they are also thinking about the feasibility and viability of the business ventures by analyzing each components of a small scale business.

They analyze entrepreneurial-motivational components like small investments maximum return, extend of control related to operational cost, securing cheap labor, high quality raw material with cheap price, infrastructure and machineries. Here one could observe more utilitarian perspective of women in assessing major attributes of business before they think on sales turnover and profit they get from the small scale business. This indicates more pragmatic approach of women entrepreneurs in small scale ventures. It has been well pointed out in one of the findings that theregional-cultural perspectives highly influence the years of experience of women in the same field and government concession to start small scale venture. These two attributes well correlate each other. One who works for pretty long period in one sector and a few good organizations get both fundamental knowledge and operational knowledge about the entire business. The previous experience in the same field provide better opportunity to analysis the financial returns through capturing market potential, analyzing the operation cost, and the sales turn over. One who has previous experience were having more knowledge and skill to handle the business by analyzing the pits and fallsLots of schemes are now available from ministry level to enhance the entrepreneurial skills of the women and lots of findings are being available to them to start small scale business ventures. A person who is having vast experience in the same field would be able to tap the governmental concessions gets appropriate financial schemes for their small scale venture. They are entitled to get lot of subsidies and it can be converted as high profitability from the business ventures. More over from government, especially women are getting long and much safer period to repay their financial commitments. So the supports extended by the governmental agencies to promote entrepreneurial ventures among women are better motivational aspect in providing entrepreneurial climate. The economic climate provided by the government, here in this context, is having high influence on women to become entrepreneurs. It has been rightly pointed out by the Shapero (1984) in this contest that attributes such as societal attitudes toward starting a business, societal attitudes toward business in general, the economic climate of the market, and the availability of accessible funds as important environmental influences in the decision to start a firm.

This finding indicates that new entrants should get adequate support from various sources whether it is governmental, nongovernmental or from entrepreneurship development training institutions. They need to be trained on various financial management and financial operations of SMEs. Then only profit making and profit maximization can be made possible. Here the role of entrepreneurship development training institutions can be well assessed in making provision of guidance, training and educate them to handle risk management and the business operations related to capital and finance. The an analysis clearly realizes the importance of 10regional-cultural perspectives influence on women entrepreneurs, especially its influence on 5 major entrepreneurial attributes viz., Amount of capital invested, Average sales turn over, Average net profit, Year of experience and Generation of business. Some the findings of the past research are contrary to the findings the present research. But in general the an analysis is in line with the findings of Hisrich and O□Brien (1981), who reported that that reasons for women entrepreneurs owning businesses were the formation of initial idea about a product or service, desire for financial independence and the desire to be ones own boss. This discussion further lead us to point out that just like men, women are also motivated to be independent in their personal and professional life. The achievement motivation and performance attributes are circle around financial independence and desire to be ones own boss.

Women may be experiencing financial security by getting profit through small business ventures. They may be deriving a pleasurable state of emotional state by being financially independent in their small scale ventures and there by satisfying their need for self esteem. The present finding thus goes align with the finding of Schwartz, (1976) and (Scott, 1986). Schwartz, (1976) an analysis on twenty female entrepreneurs observed that their major motivations to start a business were the need to achieve, the desire to be independent, the need for employment satisfaction and economic necessity. In addition to that desire to control, need for achievement, to improve the financial situation, desire to be .30 independent and the need for employment satisfaction are also some notable motivating attributes (Scott, 1986).The an analysis well pointed out the importance of all the ten regional-cultural perspectives significance on women to become entrepreneurs. It has been well established that fact that women are in need of support from various sources to attain their entrepreneurial aspirations. Collective effort from the government, private institutions, academic institutions and NGOs is the need of the hour. Here entrepreneurial entrepreneurship development programmes and training is more important among alternatives in order to balance the professional and personal skill development.

**IMPLICATIONS**

The discussion has clearly indicated various regional-cultural perspectives of women and its influence on entrepreneurial factor. It clearly indicate the role of entrepreneurship development programmes and training centers in entrepreneurial entrepreneurship development programmes that to provide appropriate training in professional and personal grooming. Even though women have the desire to be as a small scale entrepreneur, it is observed that the system lacks appropriate entrepreneurship development programmes and training intervention that to groom them. Understands their interest towards particular sector, type of industry they would like to enter into, difficulties related to capital, sales support, and profit orientations like results to be better addressed through entrepreneurship development programmes, training and support. Women entrepreneurial aspirants who doesn’t have such knowledge enter into such ventures will have to face much hardship.

It affects their self-confidence and further de-motivates others also to engage in it. Role of entrepreneurship development programmes and training is well envisaged in achieving adequate development result. The implication of lack of entrepreneurial effort is higher level of unemployment and poverty that will continue to exist and more and more social and economic issues will get generated. In this juncture it is very much inevitable to give due importance to entrepreneurial entrepreneurship development programmes in rural and semi urban regions through training centers colleges and universities by developing programs which is in tune with the level and expectations of new generation youth. Academic and training programs may design to encourage women youth to explore options as entrepreneurship and self-employment through the awareness, understanding, recognition, creativity, critical thinking and problem-solving skills. The entrepreneurial entrepreneurship development programmes should focus on both vocational and personal skill development that in tune with rural and semi urban women youth skill development.

**SUGGESTIONS TO IMPROVE ENTREPRENEURIAL ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES**

Followed by the objectives formulated this an analysis suggests following measures

1. Establishment of training and entrepreneurship development training centers in rural and semi urban regions where women employees and employers are concentrated in entrepreneurial ventures.
2. More support from governmental institutions, NGOs and Private institutions that take care of young women to become entrepreneurs through right entrepreneurship development programmes from universities and colleges.
3. Foster development of an entrepreneurial attitude among students in rural and semi urban regions.

4. Reorientation of the entrepreneurship development programmes systems to emphasize and value, entrepreneurship in order to cultivate an enterprise culture
5. More thrust to be given to experiential learning.
6. To extend better training to the young generation the faculty members to be oriented though industrial training
7. Course structure and content of an entrepreneurship course and argues for the need to develop programs of entrepreneurship.
8. Curriculum to be free from gender differentiation in entrepreneurship development programmes. Practical need based training should be provided to the entrepreneur aspirants in the regions of banking operations, financial management, material management, marketing, sales and operational management and quality assurance.
9. regional-cultural perspectives of young entrepreneurs especially women entrepreneurs need to be over looked into in designing the curriculum and course structure.
10. Curriculum should be geared with geared toward creativity, multi-disciplinary
11. process-oriented approaches, and theory-based practical applications
12. Identifying potential entrepreneurs from the moment they are made aware of that possibility as a viable career option.
13. Enhance enterprise generation by managing the entrepreneurial attributes of young folk.
14. Support the students in opportunity identification, strategy development, resource acquisition and implementation
15. To build comprehensive knowledge in entrepreneurship incorporate case studies and industrial exposure, especially in small and medium scale sector.
16. Science and technology-based entrepreneurship that can lead to high growth and employment creation in selected sectors. 17. A transition from „pedagogical based entrepreneurship development programmes to „alternative orientation which incorporate many contents like adult entrepreneurship development programmes, learning and entrepreneurship.
18. Clear distinction of educators among entrepreneurship, enterprising behavior and small business management.

**CONCLUSION**

The present analysis on regional-cultural perspectives and entrepreneurship indicates emerging role of women in modern entrepreneurial ventures. An analysis stress more research into the entrepreneurial aspirations of women folk. The findings clearly indicate that the aspirations of women and men do not have much difference. Women are also aware of importance of cost reduction and profit maximization. What they lack in rural and semi urban regions is the opportunity to get training in their professional and personal skills. So entrepreneurship development training institutions, training centers and NGOs have better role in making provision skill development opportunities to rural women. More entrepreneurial training and entrepreneurial activities are turned to be significant factor in creating and increasing employment opportunities especially, in Small and Medium Scale Sector.

Entrepreneurship also plays a crucial part in the transition process towards self-employment and self-sufficiency. Great support is required from all realms, especially entrepreneurship development training institutions in order to improve the entrepreneurial skills of women youth in rural regions. Further in order to fuel the economy towards better growth rate smaller and medium scale sectors to be promoted and those vistas to be opened to women by providing special assistance and concessions. In order to achieve the goal of better Human Resource Development, countries should support the entrepreneurial development opportunities of women and provide better environment for their participation. Though this an analysis limited to Bahadurgarh in India, it is proposed to make a wider an analysis across the regions and even at cross country scenario to analyze its deeper impact of entrepreneurial entrepreneurship development programmes in on economy.

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# CHALLENGES IN MANAGEMENT OF INNOVATIVE PERSONNEL IN HI-TECH ORGANIZATIONS

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## ABSTRACT

*In this paper an attempt has been made to present some specific aspects about management of creative people in high-tech research and development organizations, starting with the process of recruitment of such innovative people in the organization. It is well established fact that successful managers of creative enterprise would place the paramount importance on personnel as being the prime concern of management. This fact can be easily understood for translating this concern into concrete terms. The first and foremost criterion is to start with the process of recruitment which is one of most important investment decisions of the management and this is something which requires the decisive action on the individual seeking the position. Management of innovation involves change, and change will almost certainly encounter resistance. It involves uncertainty and with uncertainty comes anxiety. Creative managers tend to be wary of innovations intellectually, but they are all in favor of it. They recognize that the future of the business, in a rapidly changing world, depends on its ability to innovate. Innovation is manageable provided you know how to; you need the appropriate skills. And these are essentially different from those needed to manage established routine operations. They are the skills of managing uncertainty and risk.*

*For the management of creative people, after the recruitment process, the second step required is to evaluate the performance of employees by properly designed methods. No aspect of management of creative people can play a more significant role than the evaluation of individual performance. Opinion surveys are also suggested as an organizational performance evaluation. Performance evaluations are most effective if they are based upon a performance plan that is put in writing at the beginning of the period to be covered by the appraisal.*

*Another aspect of management of creative people in an organization is to take care of their welfare measures and providing them proper remunerations because in our society remuneration plays a very significant role. The effectiveness of performance evaluation in terms of benefits to the individual and to the organization, has been firmly established and well recognized in the world of hi-tech. it is important to note that the most subjective aspect for management of creative people is the management style.*

**KEY WORDS** *Hi-Tech organizations, Recruitment process, Performance evaluation, Welfare measures, Management style.*

## INTRODUCTION

Everywhere management of innovation involves change and change will almost certainly encounter resistance. It involves uncertainty and with uncertainty comes anxiety in decisions to be made. Such creative managers tend to be wary of innovations intellectually, but they are all in favor of it. They recognize that the future of the business, in a rapidly changing world, depends on its ability to innovate. Innovation is manageable provided the manager has knowhow of the situation to deal with and the appropriate skills. And these are essentially different from those needed to manage established routine operations. Successful managers of creative enterprise would place the prime importance on personnel as being the top concern of management.

## RECRUITMENT

Successful managers of creative organizations would place the paramount importance on people as being the prime concern of management. Recruiting the most creative, advanced-degree Hi-Tech graduates, when the competition for such people is always very keen, places the burden upon the recruiter. New graduates, who are about to make an important commitment in accepting their first position, should be concerned about the criteria the organization uses in management selection. The most useful guideline for the manager recruiting professional people is to bank on the intelligence and self-interest of the applicant. Provide the applicant with honest and relevant information about the assignment, the organization and possible career path. Make it clear, that the ultimate decision to accept an offer, is the responsibility of the applicant. The interview process should be designed to help the applicant make that decision.

In looking for creative people, the prime concern should be the long-term potential of the applicant. All too frequently the mastery of skills or unique knowledge relevant to the problem foremost in the manager's mind take precedence over independent thinking, eagerness to learn, drive, initiative and management potential. In a Hi-Tech undertaking with a significant creative component, the need for change makes equally great demands upon management as the desire to grow. It should not be concluded from the above that management potential is to be regarded as the overriding factor in the selection of scientists and engineers for an environment where creativity plays a part. Often, recruiting of professionals is done by people trained in the same academic discipline as the people to be interviewed. As a consequence, some organizations fail to place adequate emphasis upon management potential as a criteria for hiring scientists and engineers. This may account for the negative reaction to management by newly hired scientists and engineers referred to earlier.

The success of any scientific or engineering enterprise depends to a large measure upon its technicians, programmers, secretaries and other supporting skills. In predominantly professional environment, it is essential that salaries and working conditions of the support staff be such as to attract and keep the right people. Right people in such Hi-Tech organizations require basic intelligence in terms of ability to learn. Given the high rate of change in the world of science and high technology, it is necessary to generalize the primacy of learning ability for every job in such an environment. Based upon this premise, some Hi-Tech organizations have been able to retain many thousands of skilled people over the years. This has not only provided the people retained with new challenges, but has produced a uniquely skilled and motivated workforce.

**PERFORMANCE EVALUATION**

No aspect of the management of creative people can play a more significant role than the evaluation of individual performance. The prospective employee wants to learn about the organization, is the manner in which personal performance will be evaluated and by whom. Very likely, pay increases and promotions will be based upon such evaluation.

Lack of a well-established procedure for formal performance evaluation (or as it is often called, periodic appraisal) can be troublesome. Without a formalized procedure, it is difficult to assure higher levels of management and for that matter, assure the individual, that an evaluation has a taken place.

**OPINION SURVEYS**

Opinion surveys are suggested as an organizational performance evaluation. Obtaining a periodic evaluation of an entire organization, particularly with respect to how it performs in the area of people management. Anonymity of the individual response is essential. To maintain anonymity and still be able to associate a set of responses with a meaningful organizational unit, coding of the individual responses by department is necessary.

To be useful, the survey must be conducted periodically. In medium and larger organizations, such surveys provide a most useful indication of “relative performance”. To assure serious participation in future surveys, that is, to make surveys meaningful, it is essential that management provide prompt feedback. It can for example give management an indication of the value employees place upon various fringe benefits. Without such feedback, employees perceive surveys merely as a way for the personnel department to keep busy. With the spread of computer networks in Hi-Tech organizations, on-line surveys have become widely accepted. Convenience and rapid evaluation for feedback are the principal reasons.

**COMPENSATION**

It may be downplayed in the creative environment, but in our society remuneration plays a very significant role. The appraisal usually provides the basis for the merit system. The various approaches been used like the hybrid “Experience – Merit” Approach & the “Merit Only” Approach is based upon a ranking system in which a straightforward implementation of an absolute merit system._The choice of an acceptable set of ranking criteria is a very demanding task. Another important criterion which enters the ranking of creative Hi-Tech professionals is that of technology transfer. This essentially rewards a professional not for a good idea, but the effort expended in bringing it to bear upon the goals of the organization. Only experience and constant attention will serve to develop a meaningful set of criteria for ranking creative people in a Hi-tech environment. The performance evaluation system, if it is to serve as a basis for compensation, must be adapted to take into account those additional factors, which are not encompassed by the results achieved in a given evaluation period, but which represent an essential investment for the future. Lastly the issue regarding individuals should they know their absolute ranking relative to other people? Should the rankings be made public or kept private?

**NON-MONETARY COMPENSATION**

There is no better way to reward outstanding performance, than to include the outstanding performer among the group of people who evaluate proposals. If the organizational structure is meant to nurture a creative environment rather than serve the personal interests of those who are in a position of control, there is no better way of facilitating the planning process than by including those who are currently making the most significant contributions.

In an Hi-Tech organization, an superior’s responsiveness to the initiative of subordinates who have demonstrated creative ability is the most important measure of the quality of management. Another form of compensation is “Special Awards” which go far beyond the amount of money involved. They serve to increase the self-esteem of the recipient, bring recognition from the peer group and provide a way for the family of the recipient to share in the fruits of effort which may have cost time that would otherwise have been devoted to the family. It is also a way of letting everyone know the priorities of the organization and its emphasis upon such values as cooperation, safety, etc.

More formal awards would be based upon a set of criteria appropriate to publications or patents or various types of achievement, be they scientific, technical or administrative. The value of recognition from awards can be increased, by prominent posting of the pictures of recipients and by special periodic functions designed to honor awardees and their families. Another sort of compensation, which is meaningful to the majority of people, is praise, both private and public praise, provided it is justified and sincere. Most professional organizations, which play a most valuable role in science and technology, compensate their Hi-Tech personnel largely through recognition.

**MANAGEMENT STYLE**

The most subjective aspect of people management is that of management style. This refers to the way managers are perceived, correctly or incorrectly. There are certain traits and

characteristics which are not infrequent among managers with a science or engineering background which are found to be undesirable.
The need to demonstrate in-depth understanding of the technical issues beyond what is required to make a decision. When this is more evident in situations involving the area of the manager's expertise, it betrays insecurity in other areas of decision making.
Deliberately idiosyncratic behavior which conveys arrogance by flaunting the ability of getting away with it. This is almost certain to undermine the confidence of the people who feel dependent upon the manager – superiors, colleagues and subordinates alike.
Unacceptable in a manager, is the need to put people down. This is a trait which is incompatible with my idea of a manager and, for that matter, with my idea of people I want to associate with. Frederick Herzberg, the social psychologist, has found this trait one of the most destructive in human interactions: "….perhaps the most ubiquitous and damaging is that of degrading others so that it is possible to look better in comparison" (Herzberg 1966).
The value placed upon effective mangers in the world of Hi-Tech is so high that tolerance for such undesirable traits is not unusual. The management style mostly admired is that of the person perceived as low key and easy going. This person is not only a good listener but makes you feel that your concerns are of the utmost importance. This superior is decisive in terminating a meeting and otherwise acting in an assertive manner, but only when the occasion demands. He or she has no difficulties with admitting error or accepting the suggesting of others and no need to demonstrate superior ability. Another important characteristic is sincerity in praising others and an inclination to do so at every appropriate opportunity. Above all, he or she does not dominate the discussion, but is always ready to make a decision when the occasion demands. Standards of performance or behavior, however defined, should be taken only as guidelines. The manager is expected to follow these guidelines – but not blindly. If there is a good reason to depart from the guidelines, the manager should be prepared to defend a specific action in a rational way.
Some reasons which specify that there is no one way to manage people like there is a difference in organizational personnel policy. This policy will be influenced by many factors. Among these factors are the type of industry, the size and maturity of the organization, current economic conditions, geographically defined practices and the presence or absence of unions. Universities and Govt. Research Labs have a unique set of benefits and constraints which define policy. Another reason is at departmental level involvement of people-managers and subordinates exist. Every manager must answer to someone. The president must answer to a board of directors. You can't resign every time you have a difference of opinion with whomsoever you must answer to. Given that different people react differently to a given situation, you cannot assume that there is one way of dealing with all. As mentioned above with the appraisal process, some employees like to have you "lay it on the line", while others fall apart when confronted with personal shortcomings. The guiding principle should be the manager's desire to help subordinates attain their performance potential and thus maximize the units contribution to the organization.

**CONCLUSION**

Such policies will be influenced by many factors among which the type of industry, the size and level of the organization, current economic scenario existing geographically defined practices and the presence or absence of unions. Educational and research institutions have a unique set of benefits and constraints which define their policy. Whereas at departmental level involvement of people - managers and sub-ordinates exists everywhere. Every manager must answer in hierarchy. The president must answer to a board of directors. You can't resign every time you have a difference of opinion with whom so ever you must answer to. Such different people react differently to a given circumstances, and one cannot assume that there is one way of dealing with all.

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# EXCLUSIVE FINANCING TO INCLUSIVE FINANCING: A JOURNEY OF INDIA

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**ABSTRACT**

*Inclusive financing generally focus on ownership or access to particular financial products and services such as deposits, credit, long-term savings, money transfer and insurance provided by the mainstream financial service providers. In this paper, the researcher attempts to describe the initiatives being taken by GOI and RBI , and their success yet . This study focuses on approaches adopted by various Indian banks towards achieving the ultimate goal of financial inclusion for inclusive growth in India and analyses of past years progress and achievements. The study also highlights the challenges ahead in the way toward the destination of inclusive financing and identified key recommendations to cross the hurdle.*

**KEY WORDS** *Inclusive financing, exclusive financing, financial services, Financial exclusion, institutional credit,*

## INTRODUCTION

## CONCEPT OF FINANCIAL EXCLUSION

Lack of accessible, affordable and appropriate financial services is basically termed as exclusive financing. The word of financial exclusion first time used in 1993 by Leyshon and thrift meaning thereby limited access on banking services In1999, kempson and whyley defined financial exclusion broadly as which refers to excluded access to mainstream financial services and product to various people .

In India, The Report of the financial inclusion in January 2008 by C Rangarajan, Financial exclusion is defined as restricted access to financial services to certain segment of the society. Generally, this large section of the population comprises individuals or family falling into low income groups, which are not able to access even the most basic banking services like bank accounts, credit, insurance, financial advisory services and payment services. So basically, financial exclusion is the situation where certain group of population is excluded or unable to access low cost an appropriate mainstream financial products and services.

## FINANCIAL EXCLUSION IN INDIA

RBI has reported that the financial exclusion in India leads to the loss of GDP to the extent of one per cent (RBI, Working Paper Series (DEPR): 8/2011). Financially excluded people, consistently, depend on money lenders even for their day to day needs, borrowing at excessive rates to finally get caught in a debt trap. In addition, people in far-off villages are completely unaware of financial products like insurance, which could protect them in adverse situation. As per Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system. As per the report of World Bank, In India, only 35.2 percent adults above the age of 15 years have an account at formal financial institutions. 55 percent population has deposit accounts and only 9 percent population have credit accounts with formal financial institutions. Reports show that there is one bank branch per 14,000 persons. Just 18 percent are debit card holders and less than 2 percent are credit cards holders. In India, despite expansion of bank branches post reform period, the total branches of commercial banks including RRB□s and SCB□s has still stood only 48000 in a country to provide service to 6 lakh villages. So there is only one bank branch over the 12.5 villages. In India and other BRICS economies unbanked respondents reported obstacles to access formal accounts.

Thus , the major causes of financial exclusion includes relatively low extension of institutional credit in rural areas due to perception of high risk, high operating costs, lack of rural infrastructure, and vast geographical spread of the country with more than half a million villages, some sparsely populated. The micro factors, which are perceived to inhibit credit

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flow to disadvantaged groups, mainly include factors such as lack of awareness of financial products and services, the procedures for obtaining agricultural non-farm loans, staffing and human resources, and lack of effective legislation for regulating money lending.

**FINANCIAL INCLUSION**

RBI defines Financial Inclusion as "a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players". According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services."

***Why Financial Inclusion?***

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

Financial inclusion is a big necessity for our country as a large chunk of the world poor resides here. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion.

**OBJECTIVES FOR INCLUSIVE FINANCING**

Movement from exclusive financing to Inclusive financing is being initiated to following major objectives

- For reduction of disparities in terms of income and savings the financial inclusion
- For effectively utilizing the savings for the capital formation and growth of the economy.
- To opens up the opportunities in the financial sector for new players and can lead to growth of banking sector also.
- Poverty Eradication and to provide access to financial services to the weaker section of society.
- In developing countries like India there are a number of reasons, why a larger population is not having access to financial services including: limited branch networks of banks and other financial institutions; limited availability of automatic teller machines (ATMs); the relatively high costs of servicing small deposits and loans; limitations on satisfactory personal identification; and limitations on collateralizable assets and credit information.

Shri KC Chakrabarty, Deputy Governor, RBI stated that RBI will encourage new models of banking that will be more connected to people. It is expected that , technology will play a major role in helping banks to intensify coverage and RBI has offered to encourage such new models of banking and play the role of a facilitator.

**OBJECTIVES OF THE STUDY**

- To discuss need for moving from exclusive financing to inclusive financing
- To highlight the steps taken by the regulatory bodies and various government initiatives to achieve financial inclusion .
- To briefly examine the various financial inclusion initiatives with respect to role of banking and to analyze the achievements towards reaching out to the unbanked areas under financial inclusion.

- To identify the challenges faced by the country toward strengthening financial inclusion

**RESEARCH METHODOLOGY**

The present study is descriptive in nature. The data for the present study has been collected primarily from secondary sources. The secondary data was obtained from RBI bulletin, annual reports of RBI and Ministry of Finance, GoI, Report on trend and progress of banking in India, various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GoI), State Level Banker's Committee Reports, Census 2011, Economic Surveys

**LITERATURE REVIEW**

Massey (2010) said that, role of financial institutions in a developing country is crucial in promoting financial inclusion. The efforts of the government to promote financial inclusion and deepening can be further improved by the pro-activeness on the part of capital market players including financial institutions. Financial institutions have a very crucial and a wider role to play in development of financial inclusion.

Roy (2012) studied the overview of financial inclusion in India. The study concluded that banks have set up their branches in the remote corner of the country. Rules and regulations have been simplified. The study also said that banking industry has shown tremendous growth in volume during last few decades.

CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It makes use of the non-monetary aggregates for calculating financial inclusion. The parameters used by the CRISIL Inclusix took into account the number of individuals having access to various financial services rather than focusing on the loan amount. The three parameters of the index were branch, deposit and credit penetration. These parameters were updated annually and based on the availability of data; additional services such as insurance and microfinance were added. The key findings of the report were as follows: one in two Indians has a savings account and only one in seven Indians has access to banking credit. In short, CRISIL gave ground-level information regarding the progress of financial inclusion in the country's rural and also in urban areas.

RBI (2014) (a) focused on the provision of financial Services to the small businesses and low income households. Among the main motives of the committee included designing principles for maximum financial inclusion and financial deepening and also framing policies for monitoring the progress in the development of financial inclusion in India. Thus, in order to achieve the goal of maximum financial inclusion and increased access to financial inclusion the committee proposed the following measures: provision of full-service electronic bank account; distribution of Electronic Payment Access Points for easy deposit and withdrawal facilities; provision of credit products, investment and deposit products, insurance and risk management products by formal institutions. The main findings of the report highlighted the following key issues. First, the majority of the small businesses were operating without the help of formal financial institutions. Second, more than half of the rural and urban population did not have access to bank account. Third, savings in terms of GDP have declined in 2011-12. To address these issues, the Committee recommended that each individual should have Universal Electronic Bank Account while registering for an Aadhar card. The committee also proposed for setting up of payments banks with the purpose of providing payments services and deposit products to small businesses and low income households. Also banks should purchase portfolio insurance which will help in managing their credit exposures. Further, the Committee recommended for setting up of a State Finance Regulatory Commission where all the state level financial regulators will work together. For the interest of the bank account holders, the committee recommended for the creation of Financial Redress Agency (FRA) for IIMB-WP N0. 474 12

RBI (2014)(b) presented a report to study various challenges and evaluate alternatives in the domain of technology that can help large scale expansion of mobile banking across the country. The report divided the challenges into 2 broad categories – Customer enrollment related issues and Technical issues. Customer enrollment related issues include mobile number registration, M-PIN (mobile pin) generation process, concerns relating to security as a factor affecting on-boarding of customers, education of bank's staff and customer education. On the other hand, technical issues include access channels for transactions, cumbersome transaction process, and coordination with MNOs (Mobile Network Operators) in a mobile banking eco-system. The report has a detailed comparison of four channels of mobile banking - SMS (Short Message Service), USSD (Unstructured Supplementary Service Data), IVRS (Interactive Voice Response System) and Mobile Banking Application, and evaluates each one of them based on accessibility, security and usability. To resolve the different problems identified, the report suggests to develop a common mobile application, using SMS and GPRS channels, for all banks and telecom operators. The aforementioned application should enable the user to perform basic mobile banking operations such as enquiring his/her account balance, transfer and remittance of money. The application is expected to be developed in such a way that it provides a simple menu driven, interactive interface to the user. Such an application can be developed by combined efforts of telecom operators and banks. The application can be embedded on all new SIM cards, so that any person buying a new card has a pre-installed application. For customers already using SIM cards, the application can be transferred "over the air" (OTA) using a dynamic STK (SIM Application Tool Kit) facility.

## INITIATIVES TAKEN BY GOVERNMENT OF INDIA AND RESERVE BANK OF INDIA TOWARD MOVEMENT FROM EXCLUSIVE FINANCIAL TO INCLUSIVE FINANCING

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts.

RBI has advised all banks to open *Basic Saving Bank Deposit (BSBD)* accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.

*Relaxed and simplified KYC norms* to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address.

*Simplified Branch Authorization Policy*, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern States and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.

*Compulsory Requirement of Opening Branches in Un-banked Villages*, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.

*Opening of intermediate brick and mortar structure*, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations,

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banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.

Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

Banks have been advised that their *FIPs should be disaggregated and percolated down up to the branch level*. This would ensure the involvement of all stakeholders in the financial inclusion efforts.

In June 2012, revised guidelines on *Financial Literacy Centres (FLCs)*. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

**RECENT MEASURES**

Licensing of New Banks: The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

Discussion Paper on Banking Structure in India – The Way Forward: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs) at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

**PROGRESS IN FINANCIAL INCLUSION**

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs.

*Number of Branches Opened (including RRBs)*

Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country

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In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

*Villages Covered:*

The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010.

*Total Bank Outlets (including RRBs)*

Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

*BSBD Accounts Opened*

The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013

RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

*Kisan Credit Cards (KCC) Issued:*

Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion

*General Credit Cards (GCC) Issued:*

Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 bill
ion in 3.63 million GCC accounts

*ICT Based Accounts - through BCs*

In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.

The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period .

*Expansion of ATM Network:*

The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013

*Growth in SHG-Bank Linkage:*

This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India).

*Growth of MFIs:*

Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs.

At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crore as at end Sept 2013.

*Bank Credit to MSME*

MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations.

Bank credit to MSME sector witnessed a CAGR of 31.4% during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76%, while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 31, 2012

*Financial Inclusion Initiatives – Private Corporates:*

A few large private corporate have undertaken projects such as E-Choupal/ E- Sagar(ITC), Haryali Kisan Bazaar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.

## CURRENT STATUS OF FINANCIAL INCLUSION IN INDIA WITH RESPECT TO CONTRIBUTION OF BANKING COMPANIES

### Progress in Financial Inclusion

Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the Table 1

There are 24,701 rural branches, 1, 20,355 BC outlets, 2,478 other modes, 1, 47,534 total, 103.21 million total of 'No frill accounts', Increase of 39.6 per cent operation in NFA (2011-2012) Rs 932.89 billion outstanding balance, Rs 3.39 billion overdrafts, 119.77 million transactions through ICT based BC outlets, Rs 2.15 million KCC credit, Rs 0.22 million GCC credit were recorded as on March 31 2012.

Table 1: Progress of Financial Inclusion Plan as on March 31, 2012

| Sl. | No. Banking Outlets Amount | Amount |
|---|---|---|
| 1 | Rural Branches | 24,701 |
| 2 | BC outlets | 1,20,355 |
| 3 | Other modes | 2,478 |
| 4 | Total | 1,47,534 |
| 5 | Total number of 'No frill accounts' | 103.21 million |
| 6 | Operations in NFA (2011-12) | (Increase of 39.6%) |
| 7 | Outstanding balance | Rs. 932.89 billion |
| 8 | Overdrafts | Rs.3.39 billion |
| 9 | Transactions through ICT based BC outlets (2011-12) | Rs.119.77 million |
| 10 | KCC credit Rs. 2.15 million | Rs. 2.15 million |
| 11 | GCC credit Rs. 0.22 million | Rs. 0.22 million |

*(Source: World Bank, Financial Access Survey 2012)*

## COVERAGE OF BANKING SERVICES IN INDIA

Out of 32902390 total current account and savings account of banking services in All India. 27.44 per cent of total account in South India, 20.71 per cent of total account in Central India, 17.65 per cent of total account in North India, 16.42 per cent of total account in West India, 15.48 per cent of total account East India, 2.3 per cent of total account in North East India. So, it is concluded that, the maximum no of 27.44 per cent of total account in South India.

Table 2: Coverage of Banking Services in India

| Sr.no | Region | Current Account | Savings Account | Total Population | Total no. of Accounts | Total no. of Accounts (%) |
|---|---|---|---|---|---|---|
| | North | 4215701 | 52416125 | 32676462 | 56631826 | 17.65 |
| | North East | 476603 | 6891081 | 38495089 | 7367684 | 2.3 |
| | East | 1814219 | 47876140 | 227613073 | 49690359 | 15.48 |
| | Central | 2202217 | 64254189 | 255713495 | 66456406 | 20.71 |
| | West | 3178102 | 49525101 | 149071747 | 52703203 | 16.42 |
| | South | 4666014 | 83386898 2 | 223445381 | 88052912 2 | 27.44 |
| | All India | 16552856 | 304349534 | 1027015247 | 320902390 | 100 |
| Sources: National Sample Survey Organisation (2012). | | | | | | |

**FINANCIAL INCLUSION PROGRESS: BANKS AND RRBS**

RBI reports shows the progress of banking facilities up to March 2014 as follows there is a tremendous contribution of banks savings has increased a lot. There is significant role of technology indicated by ICT enabled transactions and opening up banking outlets in villages and unbanked locations has contributed majorly.

Table 3 Financial Inclusion Progress: Banks and RRBS

| . | Year ended March 2010 | Year ended March 2014 |
|---|---|---|
| Banking Outlets in Villages-Branches | 33,378 | 46,126 |
| Banking Outlets in Villages-Branchless Mode | 34,316 | 3,37,678 |
| Banking Outlets in Villages- Total | 67,694 | 3,83,804 |
| Urban Locations covered through BCs | 447 | 60,730 |
| Basic Savings Bank Deposit A/c through branches (No. in million) | 60.2 | 126.0 |
| Basic Savings Bank Deposit A/c through branches (Amt. in billion) | 44.3 | 273.3 |
| Basic Savings Bank Deposit A/c through BCs (No. in million) | 13.3 | 116.9 |
| Basic Savings Bank Deposit A/c through BCs (Amt. in billion) | 10.7 | 39.0 |
| Basic Savings Bank Deposit Accounts Total (No. in million) | 73.5 | 243.0 |
| Basic Savings Bank Deposit Accounts Total ( Amt. in billion) | 55.0 | 312.3 |
| Overdraft facility availed in Basic Savings Bank Deposit Accounts (No. in million) | 0.2 | 5.9 |
| Overdraft facility availed in Basic | 0.1 | 16.0 |

| | | |
|---|---|---|
| Savings Bank Deposit Accounts (Amt. in billion) | | |
| KCCs – (No. in million) | 24.3 | 39.9 |
| KCCs – (Amt. in billion) | 1,240.1 | 3,684.5 |
| GCC - (No. in million) | 1.4 | 7.4 |
| GCC - (Amt. in billion) | 35.1 | 1,096.9 |
| Information and Communication Technology A/Cs-BC- Transaction - (No. in million) (During the year) | 26.5 | 328.6 |
| Information and Communication Technology A/Cs-BC- Transactions - (Amt. in billion) (During the year) | 6.9 | 524.4 |

*(Source: RBI Annual Report 2013-14)*

**CHALLENGES TOWARD THE JOURNEY**

There are various challenges toward the progress of financial inclusion. For instance on demand side, it includes lack of awareness and illiteracy (see Throat,2007). From supply side, lack of avenues for investment such as poor bank penetration, unwillingness of banks to do financial inclusion or high cost involved in financial inclusion seem to be some likely reasons for financial exclusion. However deputy governor of RBI has recently clarified that the latter two reasons are myths, i.e. the cost in involved in financial inclusion is not unbearable by the banks and that it is not true that the banks are unwilling to do financial inclusion (see Chakrabarty (2010) .

The task of covering a population of 1.27 billion with banking services is extremely large. Both demand side factors (customers) and supply side factors(banks and other financial institutions) are responsible for financial inclusion. Banks and other financial institutions are largely expected to reduce the supply side constraint.

**CONCLUSION AND RECOMMENDATIONS**

In the journey of exclusive financing to inclusive financing India is yet to cover long way for the financial inclusion to reach to the core poor according to K.C.Chakrabarty RBI Deputy Governor "Even today the fact remains that nearly half of the Indian population does not have access to formal financial services and are largely dependent on money lenders". Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion . Financial Inclusion has not brought the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side .

India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining unbanked, and nearly ninety percent villages not having bank branches. More importantly, people in these unbanked areas do not fully appreciate why they need a bank account at all, or why loans from the formal sector are more useful than the informal sector. Unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program.

The government and Reserve Bank of India have been making concerted efforts since mid1950's and with renewed vigor since 2005 but success has been rather slow, due to lack of a strong network, and financial instruments not suited to rural residents. Moreover, lack of awareness and financial literacy among rural population are primarily responsible for low penetration of financial services.

More incentives for the BCs, utilizing existing network for banking such as post offices, creating awareness for the use of banking technologies as well as mobile phones etc. will help in creating a big difference in the economy. The proposed solutions that target the above issues and suggest a way forward for sustainable inclusive growth are presented below:

Preference should be given for a physical branch. The existing network of more than 1, 55,000 post offices and more than 5,00,000 fair price shops, an outlet of public distribution system with some semblance of government approval, can be explored, especially in rural areas.

There is a need to have granular schemes, preferably different schemes for rural and urban areas. Further, distinct schemes can be made on the basis of nature of employment of different people. For example, daily wage laborers can be allowed to make tiny deposits on daily basis - a special RD scheme for daily wage laborers can be introduced.

Methods of financial literacy need to be changed from distributing printed literature to audio and visual media such as radio and TV programs, especially in local languages.Financial literacy needs to be given importance in schools, and student small saving programs, where bankers visit schools and collect small deposits, need to be revived. Banks could also look at skill development by conducting regular, structured training sessions for BCs.

• Banks can tie-up with India Post to utilize their extensive network by setting up small banking counters at each of their post offices, especially rural branches. The government owned post offices have sufficient space in the post offices to set up such a counter with a computer and printer, to be operated by a commercial bank employee. With existing arrangements at the post offices, these can be converted into extended banking counters.

• Once banking extension counters are offered at the post offices, and then fresh opening of accounts in existing postal banking schemes can be discontinued, with a forward-looking approach for banks to spearhead the financial inclusion process, through deposit mobilization.

• To leverage the existing relationship with the post offices, banks could seek introduction to potential customers on payment of a stipulated fee. The business correspondent could accompany the post man to register deposits, withdrawals, and request for opening accounts and loan requisitions with the exact amount and a thumbprint on the hand-held device to register a signature. This could serve as a KYC in many cases.

• Encouraging banking habits amongst the unbanked masses by installing audio-video enabled ATMs to announce simple instructions in the local language to assist the customer in the unbanked areas, could be considered.

• In case such ATMs are installed in the premises of post offices, then trained guards could facilitate withdrawals, deposits and also account opening forms.

• The issue of security can be addressed by installing inbuilt CCTV cameras in the ATM machine as well as the post office.

• A self-sustaining solution wherein cashless payments are enabled through payment transfers by a mere swipe of the card using Point of Sales device at each prospective transaction points (like retail stores, equipment vendors, commuting medium like buses etc.). By having such terminals, the user would just be required to swipe his/her card to effect the payment thereby reducing the number of cash transactions in the system, hence also reducing the demand for currency in the system.

• Currently, ATM and deposit taking machines operate separately in the market. If these two machines can be clubbed into one and introduce features like document scanning, finger print reader/ iris detector and camera then it can offer all the banking services automatically. Biometric identification of users, voice commands and narration for all facilities will make the machine more users friendly. Also, these machines can be initially employed in urban areas as people might be technology friendly and trust in such machines. Then, after successful implementation, it can be tried in rural areas as well. This machine provides a unique opportunity to act as a small ecosystem of money wherein the cash deposited by some can be used for withdrawals by others and hence will require less replenishment of cash as compared to a regular ATM.

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