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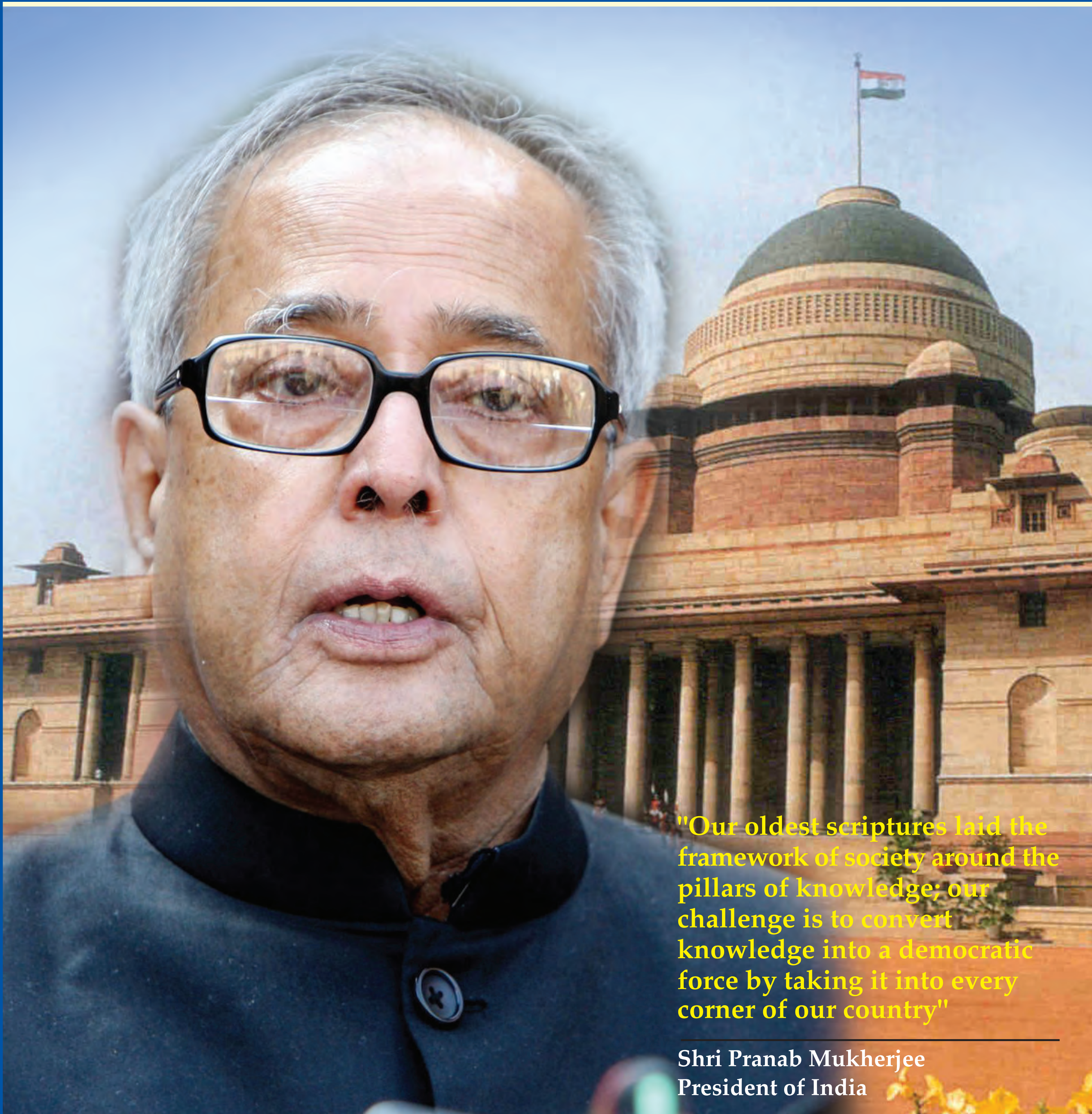
The Management Accountant

The Journal for CMAs

The Institute of Cost Accountants of India ● www.icwai.org

Our sincere respect and profound regards to the Hon'ble President of India



THE MANAGEMENT ACCOUNTANT | Vol. 47 | NO. 8 | Price : Rs. 60.00

The then President, CMA M. Gopalakrishnan being felicitated by CMA A. S. Durga Prasad, Council Member and CMA K K Rao, Vice Chairman, HCCA at the Centre of Excellence (CoE), Hyderabad.

The then President, CMA M. Gopalakrishnan, inaugurating CMA Hall at Trivandrum. CMA B.R. Prabhakar, Chairman SIRC, CMA G.V.S. Subrahmanyam, VC & CMA H. Padmanabhan, Treasurer, SIRC looks on.

The then President CMA M. Gopalakrishnan lighting the lamp and inaugurating the new Infrastructural facilities of TCCA.

First prize for Excellence in Cost Management – 2011 in Category IV: Private -Manufacturing: Units (Medium) awarded to Everest Industries Ltd. Seen with CMA Rakesh Singh, the then Vice President, and Dr. M. Veerappa Moily, Hon'ble Minister, MCA, and Mr. Naved Masood, Secretary, MCA, Shri Rakesh Gupta, Sr. VP(Finance) and Shri Subhash Agrawal, GM (Finance)

CMA Manas Kumar Thakur, Council Member, Shri V.S. Raju, President, FAPCCI, CMA K.K. Rao, Vice Chairman and Shri P. Ravindran, Advocate, Indirect Taxes are seen on a seminar on 'Indirect Taxation' on 06.06.2012 at CoE, Hyderabad.

The then President CMA M. Gopalakrishnan inaugurating the CMA Hall, Trivandrum. CMA B.R. Prabhakar, Chairman SIRC, CMA G.V.S. Subrahmanyam, VC, CMA H. Padmanabhan, Treasurer, SIRC and students of the Chapter looks on.

First prize for Excellence in Cost Management – 2011 in Category VII: Public -Manufacturing: Unit (Medium) awarded to Bharat Heavy Electricals Limited, Jhansi. Seen with CMA M. Gopalakrishnan, the then President and CMA Rakesh Singh, the then Vice President, Dr. M. Veerappa Moily, Hon'ble Minister, MCA, and Mr. Naved Masood, Secretary, MCA, Shri A.K. Dave, Executive Director and Shri Atanu Saha, GM (Finance)

First prize for Excellence in Cost Management – 2011 Category VI: Public- Manufacturing: Unit (Large) awarded to ONGC, Karaikal. Seen with CMA M. Gopalakrishnan, the then President and CMA Rakesh Singh, the then Vice President, Dr. M. Veerappa Moily, Hon'ble Minister, MCA and Mr. Naved Masood, Secretary, MCA, Shri Sudhir Vasudeva, CMD and Shri A.K. Banerjee, Director (Finance)

CMA Rakesh Singh, President of the Institute and CMA S.C. Mohanty, Vice President presenting bouquet to Shri Manoj Kumar, IAS, Jt. Secretary, MCA

CMA T.C.A Srinivasa Prasad, Council Member of the Institute, making on-line subscription to Taxmann.

CMA M. Gopalakrishnan, immediate past President congratulating CMA S.C. Mohanty immediately on his election as the Vice President of the Institute while CMA A.S. Durga Prasad, Council Member looks on.

Council Members and Government nominees congratulating the new President and Vice President immediately on their election to their respective offices

CMA M. Gopalakrishnan, the then President of the Institute and Shri Amit Bhargava, Director, Taxmann exchanging the MOU in the presence of Shri Rakesh Singh, the then Vice President of the Institute while CMA J.P. Singh, the then Director (Technical) looks on.

CMA Rakesh Singh, President of the Institute being congratulated by CMA M. Gopalakrishnan, immediate past President immediately on the former's election as President.

CMA Rakesh Singh, President of the Institute and CMA S.C. Mohanty, Vice President congratulating each other on becoming President & Vice president of the Institute respectively.

Council Members and Government nominees congratulating CMA Rakesh Singh immediately on his election as President of the Institute

Glimpses of first ever video conference on 'Management Accounting: Trends in sub-continent countries' organized jointly by ICAI & ICMAP on 18.07.12

Glimpses of first ever video conference on 'Management Accounting: Trends in sub-continent countries' organized jointly by ICAI & ICMAP on 18.07.12

Council Members and Government nominees congratulating CMA S.C. Mohanty immediately on his election as Vice President of the Institute

Shri P.V. Bhattad, Council Member congratulating CMA S.C. Mohanty on his election as Vice President of the Institute while CMA A. Om Prakash, Council Member looks on.

CMA Rakesh Singh, President and CMA S.C. Mohanty, Vice President of the Institute seen with CMA M. Gopalakrishnan immediate past President, Smt. Nandna Munshi, and Shri K. Govindaraj, Government nominees and Council Members CMA Smt. Aruna Soman, CMA H.K. Goel, (first row) CMA P.V. Bhattad, CMA Amit Apte, CMA Sanjay Gupta, CMA Manas Kumar Thakur, CMA A.S. Durga Prasad, (middle row) CMA Dr. P.V.S. Jagan Mohan Rao, CMA Dr. Sanjiban Bandyopadhyaya and CMA S.R. Bhargave (last row)

Justice V.N.Khare, former Chief Justice of India & Chairman (standing on the right next to CMA M. Gopalakrishnan, the then President of the Institute) and other members of Jury of 9th National Award for Excellence in Cost Management-2011 held on 6th July,2012.

Shri Sushil K. Modi, Dy. CM & Finance Minister, Govt. of Bihar, Chairman, National Empowered Committee of State Finance Ministers along with CMA B.M. Sharma, past President, CMA M. Gopalakrishnan, the then President of the Institute, CMA Rakesh Singh, the then Vice President and other dignitaries. Seen at the back CMA S.C. Mohanty, Council member and RCM's of EIRC along with other dignitaries.

CMA M. Gopalakrishnan, the then President of the Institute with Shri Sushil K. Modi, Dy. CM & Finance Minister, Govt. of Bihar, Chairman, National Empowered Committee of State Finance Ministers at the national seminar on GST - Key issues & Challenges organized by Patna Chapter on 15.07.12

Council Members congratulating CMA S.C. Mohanty on his appointment as Vice President of the Institute

CMA Dr. P.V.S. Jagan Mohan Rao, Council Member, congratulating CMA S.C. Mohanty on his appointment as Vice President of the Institute

Inside *This Issue*

The Management Accountant

Official Organ of the Institute of Cost Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

Volume 47 ◘ No. 8 ◘ August 2012

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IDEALS THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

MISSION STATEMENT

"The Institute of Cost Accountants of India Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not be attributed to the Institute.

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The Institute reserves the right to refuse any matter of advertisement detrimental to the interest of the Institute. The decision of the Editor in this regard will be final.

Editorial

After a considerable media blaze over as to who is going to be the new occupant of the Raisina Hills for the next five years, the political dust now seems to have settled. His Excellency, Mr. Pranab Mukherjee now having been ensconced for the top job of the country, it's time to turn attention to flagging economy that is badly in need of some deft handling. The last few weeks have witnessed a spate of events - whilst some are reasons to rejoice, others bring despair and dejection. After being fence sitters for nearly three months, overseas investors are back in action with total investment by FII's in the Indian market is estimated to touch the $ 10 billion mark in the calendar year 2012 and just as everybody thought that markets are in for a rally, weak global cues saw the markets plummeting - mainly triggered by fear that Spain might seek an international bailout and that Greece might not fulfill its bailout commitments. The rupee slide continues unabated and as if these are not enough, the specter of drought and another round of recession in the global economy loom large. On the face of all these adverse developments, the international rating agencies are not likely to pour sweet melodies into our ear about the performance of the Indian economy.

Let us for the time being concentrate on the present issue which is themed upon 'performance management' — which has been an object of long and difficult quest throughout the history. The question is how we define performance? Early in the twentieth century F.W. Taylor had made his performance management experiment — the famous works study and motion study-at the Bethlehem Steel Plant, to change the ways managers ran their company. The 1920s saw the beginning of the quality control era. W. Edwards Deming, Joseph M Juran, Philip B Crosby and A Shewhart had offered quality management philosophy from which Japan had reaped hefty dividends. Compared to that, Eastman Kodak, the company founded by George Eastman, and a leader in the photo-imaging industry, has gone bankrupt early in this year. Kodak had a healthy cash flow, it was a leader in the conventional photo-imaging industry; it had all the ingredients of a great company, yet it failed to see its hazy future. It is said that the engineers of the company had successfully invented digital camera in 1972, but as the management was obsessed with its current cash flows from the conventional photo equipment division, it failed to see the prospect of a digital camera. Kodak thus had dug its own grave in 1972 by refusing to accept what was part of its core competency.

Indeed, Peter Drucker had advised the managers long ago to judge performance of their organization through four sets of diagnostic information: Foundation information, productivity information, competence information and resource allocation information. Cash flows, liquidity and similar information are like the blood pressure, weight and pulse rate, and do not tell much when they are normal. But we need information on total factor productivity for which EVA and similar projections may come handy. But we also need analysis on the core competencies of the organization, for which Norton and Kaplan have devised their famous balanced scorecard methodologies.

We understand that performance management is a dynamic science that needs to take care of all the four diagnostic information. As with all the past editions of the journal, we expect our eminent contributors will enlighten our readers with the latest information in the area of performance management. Happy reading!

> "A person who never made a mistake, never tried anything new"
>
> Albert Einstein

CMA Rakesh Singh, President

My Dear Professional Colleagues,

It is my proud privilege and a matter of great honour to address you through this column after assuming office as the 55th President of our Institute for the year 2012-13. At the outset, I express my sincere gratitude to all the members of the Council for reposing confidence in me and electing me to lead this great profession along with CMA S. C. Mohanty as my Vice President. I am thankful to CMA M. Gopalakrishnan, who has passed on the baton to me with a very sound foundation. The benchmarks established by my predecessor are remarkably high.

I am starting this journey with the good wishes of all my seniors and colleagues who have all along inspired and motivated me to work passionately for the Institute over the years. The full agenda will be placed before you during the coming months and hopefully it will enlarge our professional canvass and create new benchmarks.

During my interactions with many of you during my tenure in the Central Council, a particular issue of concern that was expressed was to define the short-term and long term goals and the dynamic shifts in priorities. You are aware of the dramatic shifts in the dynamics of the profession that have taken place during the last two years which has enlarged the scope and responsibility of our members to a great extent. The Council has continuously been deliberating on these issues keeping in mind the changing scenario which has provided a strong statutory focus on cost accounting and cost audit. The profession has now been put on a completely different pedestal due to the untiring efforts of my predecessors. These changes have many implications and the success is dependent on the responsiveness of the Institute to the needs of the Industry, the Regulatory Bodies and the members; the thought leadership provided by the body among peer institutions, quality of services provided by our members, and their contributions to the economic activity of the country would be key factors of this process of transformation. The increased responsibility has brought about the urgent need of capacity building and I intend to focus primarily on this aspect.

I propose to focus my attention on the following priorities :

- To strengthen physical infrastructure at all levels to cater to the growing demand from all the stakeholders
- To establish CMA Support Centres across the country to provide opportunity to aspiring young students wanting to become ''CMA''
- To establish Centre for Excellence(s) in cities with large industrial base
- To organise focussed programs to keep the members abreast with the latest development in the profession on the maintenance of Cost Accounting Records and Cost Audit and filing of Cost Audit Report in XBRL mode, besides other important changes relating to Valuation Audit, CENVAT Audit, etc
- To Issue remaining Cost Accounting Standards and Guidance Notes thereon
- To Issue Cost Audit and Assurance Standards

- To share the professional expertise of the Institute in various fields globally and in particular with the members of the SAFA countries
- To enhance the visibility of the Institute through various public relation activities
- To develop cordial relation with our sister Institutes.

To meet the above objectives I also intend to have a strong IT base integrating the Headquarters with the Regional Councils and Chapters. I need not only the support of the Council but from the senior members of the profession including our Past Presidents who have always been a source of strength to the Council.

I believe that your active support, participation and guidance will enable me to address the above issues in a constructive and fruitful manner as well as enable me to resolve other issues that are brought to my notice.

I am very happy to inform that immediately after taking over as President of the Institute we had the opportunity to meet Shri Mukul Roy, Hon'ble Railway Minister who visited the Institute on the very next day of my taking over as the President. On the same day, a Press Meet was organised which was addressed by the Hon'ble Railway Minister and myself.

I along with CMA S.C. Mohanty, Vice President sought the blessings of Dr. M. Veerappa Moily, Hon'ble Minister of Corporate Affairs, Shri R.P.N. Singh, Hon'ble Minister of State for Corporate Affairs, Mr. Naved Masood, IAS, Secretary to the Government of India, Ministry of Corporate Affairs, Shri Sudhir Mittal, IAS, Special Secretary to the Government of India, Ministry of Corporate Affairs, Shri Manoj Kumar, IAS, and Shri Avinash K. Srivastava, IAS, Hon'ble Joint Secretaries to the Government of India, Ministry of Corporate Affairs. We apprised them about the various activities of the Institute and the vision of the Council. I am happy to inform you that all of them have assured their continued support and guidance for the development of our profession.

I also met Shri Arvind Singh Gope, Hon'ble Minister of Rural Development, Government of Uttar Pradesh on 28th July 2012 and apprised him about the role our professionals can play in the various schemes of the Government of Uttar Pradesh.

I on behalf of the Institute signed an MOU with Indian Institute of Corporate Affairs, Ministry of Corporate Affairs, on 30th July 2012 for organizing exclusive residential training programmes at Manesar. The signing of MOU ceremony was witnessed by Dr. M. Veerappa Moily, Hon'ble Minister of Corporate Affairs, Government of India.

I take this opportunity of requesting all of you to come forward and actively participate in the activities of the Institute. The Council cannot function in isolation without the active help and support of the body of members. We have already proved that we have immense strength and it is just a question of all of us getting together and marching ahead. We must have a common goal—that of attaining professional excellence.

This is indeed a tall order and an overwhelming task to anyone, but I believe that I will be able to address these, the key drivers being your support and active participation. I request you to guide me in solving any issue that concerns you.

I wish you and your family members very happy celebrations of Raksha Bandhan, Independence Day, Janmashtami and Id-ul-fitr.

With best wishes,

CMA Rakesh Singh
President
1st August 2012

CMA Rakesh Singh, President

Institute of Cost Accountants of India takes pride in announcing Shri Rakesh Singh as the new President for the period 2012-13. He is a Fellow member of the Institute of Cost Accountants of India. Shri Singh was a member of the Central Council of ICAI for the term 2004-2007 and was elected to the council of the Institute for the term 2011-2015. He served as the Vice-President of the Institute in the year 2011-12. Earlier Shri Singh, as a member of the Northern India Regional Council, held the position of Chairman during the year 2001-2002.

He was the Chairman of the Cost Accounting Standards Board of the Institute for the period 2011-12. During his chairmanship, he played a premier role in completing and bringing out the ''Generally Accepted Cost Accounting Principles'' (GACAP) for use by the professionals, members, industry and students. Shri Singh as Chairman of the Membership Committee, was instrumental in introducing members' identity card and revision of code of ethics. Shri Singh has, in the past, represented the Institute in various committees including Executive Committee, Examination Committee, Membership Committee, Cost Accounting Standards Board etc.

Shri Singh was the Technical Advisor, Confederation of Asia and Pacific Accountants (CAPA) and Nominee on Government Accounting Standards & Advisory Board (GASAB). He played a pivotal role in bringing the Institute at the forefront by representing the institute globally. Shri Singh represented the Institute in International Federation of Accountants (IFAC), South Asian Federation of Accountants (SAFA), European Federation of Accountants and Auditors (EFAA), Confederation of Asian and Pacific Accountants (CAPA). He was also a trustee on National Foundation for Corporate Governance.

He was Chairman for organizing the 53rd National Cost Convention which was held at Vigyan Bhawan, New Delhi from 15-17th March 2012 with a Central theme on ''Sustainability Framework integrated Reporting, Imperatives for CMAs''.

Shri Rakesh Singh is a practicing Cost Accountant since 1990 and is a partner of Shome & Banerjee Cost Accountants. He is a Director in ICWAI MARF, a section 25 Company. His vision is to position the Institute in the global context by spreading the consciousness on cost and management accounting and cost audit in every sphere of economic activity duly integrated with total cost management.

CMA S. C. Mohanty, Vice-President

The Institute of Cost Accountants of India (ICAI) takes great pride in electing Shri Suresh Chandra Mohanty, as the new Vice-President for the period 2012-13. Shri Mohanty is a Graduate in Economics and holds a degree in Law, a Fellow Member of the Institute of Cost Accountants of India (ICAI) and Institute of Valuers (FIV) of India. He is a Registered Valuer under the Wealth Tax Act, 1957 and Licensed Surveyor and Loss Assessor and Surveyor.

Shri Mohanty has made remarkable contributions to the profession as Chairman of Corporate & Allied Laws Committee, Members Services & Facilities Committee, and Regional Council & Chapters Co-ordination Committee. During 2007-11, under his Chairmanship, Cost Audit & Assurance Standards Board (CAASB), has set the roadmap for developing Cost Auditing and Assurance Standards in line with the recent professional changes and Government directives. The Board has formulated the Preface to the Standards on Quality Control, Auditing, Assurance, Review & related services rendered by the Cost Accountants and also released CAAS-101 Cost Audit and Assurance Standard on Planning an Audit of Cost Statements and CAAS-102 Cost Audit and Assurance Standard on Cost Audit Documentation, for guidance to the Members and continuing as Chairman of CAASB for the year 2012-13.

Shri Mohanty had served as the Secretary, Vice-Chairman before his assuming the office of Chairman, Eastern India Regional Council (EIRC) during the period 2004-07 and had been an avantgarde in revival and changing the face of the Regional Council. He was elected for the first time to the Central Council of the Institute for the period 2007-11 and was re-elected again for the period 2011-15.

Prior to joining Practice as a Cost Accountant in 2001, Shri Mohanty had a rich experience of holding key portfolios in corporate for more than 23 years. His magnum exposure and expertise in the field of Cost and Management Accounting has immensely benefitted the Institute at its Headquarters, Regional Councils and Chapters by value addition in various fields including Professional Development, Academics and Administration. He is a Research Scholar at Utkal University and Member, Orissa State Productivity Council, Rotary Club of Bhubaneswar & Orissa State Vigilance Council.

Shri Mohanty represents the Institute in the Accounting & Auditing Committee and Task Force to review the Constitution of SAFA. Known to be a Task Master and staunch believer in God, Shri Mohanty is also visionary, a devoted professional and is much commended for his generosity, sincerity, friendliness and sharing with society and caring for humanity.

Shri Mohanty is the Senior Partner of S.C. Mohanty & Associates, Cost Accountants and also a Director, SCM Consultants Pvt Ltd. and ICWAI Management Accounting Research Foundation.

We wish Shri S. C. Mohanty the very best for the present challenge as the Vice-President of The Institute of Cost Accountants of India.

CMA A. Om Prakash

I have great pride to address you as the chairman of the Journal Committee. The Journal is not only the official organ of the institute; it is the window to the activities of the Institute. We are also exploring the possibility of giving some CEP credit for reading the articles of the Journal.

Last year has been an eventful year for your Journal. The improvement has been tremendous. The paper quality has improved; the articles have changed for better. The special issues are meaningful and current. And as you are aware, the Journal has gone full colour!!

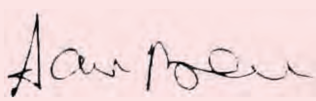
We shall at journal committee, thrive for further improvement of ''The Management Accountant''. The improvement is possible when we get suggestions, criticism and feedback. The editorial team of the Institute is doing excellent work in improving the journal.

Let us look at 'The Management Accountant as a journal showcasing the four pillars of our profession i.e., Accounting, Management, Statutory and Strategy. This will give us focus on our activities. This will also make us look towards our goals and fine tune our strategies. This is a primary requirement of the institute.

I want more number of members to showcase their writing talent through articles, case studies, Analysis etc. This will also help us to share the knowledge and experience.

I wish all of you best of luck,

Happy reading!!!



(A.Om Prakash)
Chairman, Journal Committee
1st August 2012

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Standing & Other Committees of the Council of the Institute for 2012-13

STANDING COMMITTEES

1. Executive Committee — **Quorum (4)**

1. Shri Singh, Rakesh, President — Chairman
2. Shri Mohanty, S.C., Vice-President — Member
3. Shri Gopalakrishnan, M. — Member
4. Shri Durga Prasad, A.S — Member
5. Shri Bhattad, P.V. — Member
6. Dr. Bandyopadhyaya, Sanjiban — Member
7. Shri Goel, H. K. — Secretary

Secretary, ICAI

2. Examination Committee — **Quorum (4)**

1. Shri Singh, Rakesh, President — Chairman
2. Shri Mohanty, S.C., Vice-President — Member
3. Shri Durga Prasad, A. S. — Member
4. Shri Om Prakash, A. — Member
5. Smt. Soman, Aruna V. — Member
6. Shri Apte, Amit — Member
7. Shri Srinivasa Prasad, T.C.A. — Member

Shri Amitava Das (Director-Examination) — Secretary

3. Finance Committee — **Quorum (4)**

1. Shri Singh, Rakesh, President — Chairman
2. Shri Mohanty, S.C., Vice-President — Member
3. Shri Gopalakrishnan, M. — Member
4. Dr. Jagan Mohan Rao, P.V.S. — Member
5. Shri Bhargave, S.R. — Member
6. Shri Gupta, Sanjay — Member
7. Shri Thakur, Manas Kumar — Member

Shri S.R. Saha (Director-Finance) — Secretary

OTHER COMMITTEES

4. Disciplinary Committee U/s 21B of The Cost and Works Accountants Act, 1959 as amended — **Quorum (3)**

1. Shri Singh, Rakesh, President — Presiding Officer
2. Shri Gopalakrishnan, M. — Member
3. Shri Bhattad, P.V. — Member
4. Shri Bandopadhyay, Debashish, Nominee of Central Government — Member
5. Shri Kumar, Alok, Nominee of Central Government — Member

Shri Kaushik Banerjee (Director -Discipline) — Secretary

5. Training & Educational Facilities Committee — **Quorum (3)**

1. Shri Srinivasa Prasad, T.C.A. — Chairman
2. Shri Om Prakash, A. — Member
3. Shri Durga Prasad, A.S. — Member
4. Smt Soman, Aruna V. — Member
5. Shri Gupta, Sanjay — Member
6. Shri Thakur, Manas Kumar — Member
7. Shri Govindaraj, K. (Government Nominee) — Member

Shri R.N. Pal (Sr. Director-Studies) — Secretary

6. Professional Development Committee — **Quorum (5)**

1. Shri Bhargave, S.R. — Chairman
2. Shri Gopalakrishnan, M. — Member
3. Shri Durga Prasad, A.S. — Member
4. Shri Bhattad, P.V. — Member
5. Shri Goel, H.K. — Member
6. Dr. Bandyopadhyaya, Sanjiban — Member
7. Shri Sreekumar, G. (Government Nominee) — Member
8. Shri Goyal, B.B. (Co-opted) — Member

Shri J.K. Budhiraja (Director - PD) — Secretary

7. Journal Committee — **Quorum (3)**

1. Shri Om Prakash, A. — Chairman
2. Shri Srinivasa Prasad, T.C.A. — Member
3. Shri Goel, H.K. — Member
4. Dr. Jagan Mohan Rao, P.V.S. — Member
5. Shri Bhattad, P.V. — Member
6. Shri Gupta, Sanjay — Member

Shri Rajendra Bose (Joint Director- R&J) — Secretary

8. Continuing Education Programme Committee — **Quorum (3)**

1. Shri Goel, H. K. — Chairman
2. Shri Om Prakash, A. — Member
3. Shri Bhargave, S.R. — Member
4. Smt. Soman, Aruna V. — Member
5. Shri Bhattad, P.V. — Member
6. Dr. Bandyopadhyaya, Sanjiban — Member

Shri D. Chandru (Director-CEP) — Secretary

9. Research & Publications Committee — **Quorum (4)**

1. Shri Thakur, Manas Kumar — Chairman
2. Shri Durga Prasad, A.S — Member
3. Shri Bhargave, S.R. — Member
4. Shri Bhattad, P.V. — Member
5. Shri Gupta, Sanjay — Member
6. Shri Srinivasa Prasad, T.C.A. — Member
7. Dr. Bhattacharyya, Asish K. (Co-opted) — Member

Dr. D.P. Nandy (Director-R&J) — Secretary

10. Members' Facilities & Services Committee — **Quorum (3)**

1. Smt. Soman, Aruna V. — Chairman
2. Dr. Jagan Mohan Rao, P.V.S. — Member
3. Shri Goel, H. K. — Member
4. Shri Apte, Amit — Member
5. Shri Thakur, Manas Kumar — Member

Shri Pradipta Gangopadhyay (Deputy Director-Membership) — Secretary

President and Vice-President are permanent invitees to all the Committees

11. Regional Councils & Chapters Co-ordination Committee — Quorum (3)

1.	Shri Bhattad, P.V.	Chairman
2.	Dr. Jagan Mohan Rao, P.V.S.	Member
3.	Smt. Soman, Aruna V.	Member
4.	Shri Goel, H.K.	Member
5.	Dr. Bandyopadhyaya, Sanjiban	Member
6.	Shri Thakur, Manas Kumar	Member
	Shri S. R. Saha (Director-Finance)	Secretary

12. WTO & International Affairs Committee — Quorum (5)

1.	Shri Gupta, Sanjay	Chairman
2.	Shri Durga Prasad, A.S.	Member
3.	Shri Bhargave, S. R.	Member
4.	Shri Bhattad, P.V.	Member
5.	Shri Om Prakash, A.	Member
6.	Shri Srinivasa Prasad, T.C.A.	Member
7.	Shri Thakur, Manas Kumar	Member
8.	Smt. Munshi, Nandana (Government Nominee)	Member
	Shri Sudhir Sharma (Joint Director-Technical)	Secretary

13. Direct Taxation Committee — Quorum (5)

1.	Dr. Bandyopadhyaya, Sanjiban	Chairman
2.	Shri Gopalakrishnan, M.	Member
3.	Shri Om Prakash, A.	Member
4.	Shri Bhargave, S.R.	Member
5.	Smt. Soman, Aruna V.	Member
6.	Shri Gupta, Sanjay	Member
7.	Shri Thakur, Manas Kumar	Member
8.	Shri Kumar, Ashish (Government Nominee)	Member
9.	Shri Rajaratnam, S. (Co-opted)	Member
	Shri Chiranjib Das (Dy. Director - Studies)	Secretary

14. Cost Audit Assurance Standard Board — Quorum (5)

1.	Shri Mohanty, S.C., Vice-President	Chairman
2.	Shri Gopalakrishnan, M.	Member
3.	Dr. Jagan Mohan Rao, P.V.S.	Member
4.	Shri Apte, Amit	Member
5.	Shri Gupta, Sanjay	Member
6.	Dr. Bandyopadhyaya, Sanjiban	Member
7.	Shri Goyal, B.B. (Advisor Cost, MCA)	Member
8.	Smt. Munshi, Nandana (Principal Director, Commercial Audit, CAG)	Member
9.	Shri Awasthi, P.K. [Joint Chief (Finance), CERC]	Member
10.	Shri Vasudevan, P. (General Manager, RBI)	Member
11.	Shri Narasimha Murthy, K.	Member
12.	Shri Muraliprasad, S.A. (Director, Sam Consultancy Services)	Member
13.	Two representatives of Industry Associations / Professional Institutes	Member
	Shri J.P. Singh (Addl. Secretary)	Secretary

15. Infrastructure & Information Technology Committee — Quorum (4)

1.	Shri Durga Prasad, A.S.	Chairman
2.	Shri Gopalakrishnan, M.	Member
3.	Shri Om Prakash, A.	Member
4.	Smt. Soman, Aruna V.	Member
5.	Shri Apte, Amit	Member
6.	Shri Gupta, Sanjay	Member
7.	Shri Srinivasa Prasad, T.C.A.	Member
	Mrs. Anita Singh (Joint Director-IT) Secretary-IT	Member
	Shri Kushal Sengupta (Dy. Director-Finance) Secretary-Infrastructure	Member

16. ICAI(CMA)-ICAI-ICSI Co-ordination Committee — Quorum (3)

1.	Shri Singh, Rakesh, President	Chairman
2.	Shri Om Prakash, A.	Member
3.	Dr. Jagan Mohan Rao, P.V.S.	Member
4.	Shri Bhargave, S.R.	Member
5.	Shri Apte, Amit	Member
6.	Shri Srinivasa Prasad, T.C.A.	Member
7.	Shri Srivastava, A.K. (Government Nominee)	Member
	Shri S.C. Gupta (Director Admin.- Delhi Office & PR)	Secretary

17. Committee for Accounting Technicians — Quorum (3)

1.	Shri Apte, Amit	Chairman
2.	Smt. Soman, Aruna V.	Member
3.	Dr. Bandyopadhyaya, Sanjiban	Member
4.	Shri Om Prakash, A.	Member
5.	Dr. Jagan Mohan Rao, P.V.S.	Member
	Shri L. Gurumurthy, (Director-CAT)	Secretary

18. Indirect Taxation Committee — Quorum (5)

1	Shri Thakur, Manas Kumar	Chairman
2	Shri M. Gopalakrishnan, M.	Member
3.	Shri Bhargave, S.R.	Member
4.	Shri Apte, Amit	Member
5.	Shri Goel, H.K.	Member
6.	Dr. Bandyopadhyaya, Sanjiban	Member
7.	Shri Kumar, Ashish (Government Nominee)	Member
8.	Shri Raveendran, P. (Co-opted)	Member
	Shri Chiranjib Das (Dy. Director-Studies)	Secretary

President and Vice-President are permanent invitees to all the Committees

19. Corporate Laws Committee — Quorum (3)

1. Dr. Jagan Mohan Rao, P.V.S.	Chairman
2. Smt. Soman, Aruna V.	Member
3. Shri Apte, Amit	Member
4. Dr. Bandyopadhyaya, Sanjiban	Member
5. Shri Goel, H.K.	Member
Shri Dibbendu Roy (Dy. Director - PD)	Secretary

20. Cost & Management Accounting Committee — Quorum (4)

1. Shri Durga Prasad, A.S.	Chairman
2. Shri Gopalakrishnan, M.	Member
3. Shri Bhargave, S.R.	Member
4. Shri Apte, Amit	Member
5. Shri Goel, H.K.	Member
6. Shri Thakur, Manas Kumar	Member
7. Dr. Bhattacharyya, Asish K. (Co-opted)	Member
Shri Tarun Kumar (Dy. Director-Technical)	Secretary

21. Committee on Banking & Insurance — Quorum (3)

1. Smt. Soman, Aruna V.	Chairman
2. Shri Durga Prasad, A.S.	Member
3. Shri Goel, H.K.	Member
4. Shri Srinivasa Prasad, T.C.A.	Member
5. Shri Thakur, Manas Kumar	Member
6. Shri Sreekumar, G. (Government Nominee)	Member
Shri Pradipta Gangopadhyay (Dy. Director-Membership)	Secretary

22. Committee for Members in Industry — Quorum (3)

1. Shri Srinivasa Prasad, T.C.A.	Chairman
2. Shri Durga Prasad, A.S.	Member
3. Shri Bhattad, P.V.	Member
4. Dr. Jagan Mohan Rao, P.V.S.	Member
5. Shri Gupta, Sanjay	Member
Ms. Nisha Dewan (Jt. Director - CEP)	Secretary

23. Election Reforms Committee — Quorum (3)

1. Shri Bhattad, P.V.	Chairman
2. Dr. Jagan Mohan Rao, P.V.S.	Member
3. Shri Gupta, Sanjay	Member
4. Shri Srinivasa Prasad, T.C.A.	Member
Shri Kaushik Banerjee (Addl. Secretary)	Secretary

24. Cost Accounting Standards Board — Quorum (8)

1. Shri Gopalakrishnan, M.	(Council Member – ICAI)	Chairman
2. Shri Bhargave, S.R.	(Council Member – ICAI)	Member
3. Shri Apte, Amit	(Council Member – ICAI)	Member
4. Shri Om Prakash, A.	(Council Member – ICAI)	Member
5. Dr. Bandyopadhyaya, Sanjiban	(Council Member – ICAI)	Member
6. Shri Goyal, B.B.	(Advisor Cost, MCA)	Member
7. Nominee of MCA		Member
8. Nominee of DGFT		Member
9. Dr. Bhattacharyya, Asish K.	(Chairman, Board of Advanced Studies)	Member
10. Dr. Gandhi, Sailesh	(Professor, IIM, Ahmedabad)	Member
11. Shri Muraliprasad, S. A.	(Director, Sam Consultancy Services)	Member
12. Shri Vasudeva, S.C.	(FCA)	Member
13. Shri Mukhopadhyay, A.K.	(Tata Motors Ltd.)	Member
14. Shri Ganesan, Murali	(ITC Ltd.)	Member
15. Nominee of the Institute of Chartered Accountants of India		Member
16. Nominee of the ICSI		Member
17. Nominee of ASSOCHAM		Member
18. Nominee of CII		Member
19. Nominee of CCI		Member
20. Nominee of TRAI		Member
21. Nominee of SEBI		Member
22. Nominee of PNGRB		Member
23. Nominee of CBEC		Member
24. Nominee of CBDT		Member
25. Nominee of FICCI		Member
Shri J. P. Singh (Addl. Secretary)		Secretary

President and Vice-President are permanent invitees to all the Committees

Linking Strategy with Performance Management

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Performance management has evolved over the years from generic business plans with yearly financial targets to having these encompassing a broader spectrum of non-financial goals linked to strategy. The concept of keeping sight of objectives and thereby avoid being stuck with fire-fighting and only managing daily activities received managers attention with the introduction of Management by Objectives (MBO), which was conceived by Peter Drucker back in the nineteen sixties.

The pioneering work of the ''Balanced Scorecard'' by Robert Kaplan and David Norton in the 1990s introduced non-financial measures to help organizations have a clear focus on customers, employees and internal processes. The Balanced Scorecard clearly defined four dimensions for measuring objectives : (1) customers, (2) learning and growth, (3) business processes, and (4) finance metrics.

It is essential to have relevant well-defined metrics in place for managers and business unit leaders to evaluate how their business units and profit or cost centers are measuring against objectives. Managers of different business units often compete with each other for organization resources; and business leaders and CEOs need to ensure that resources are efficiently allocated. This can be met with the help of management accountants who can play a key role in partnering with business to define key performance indicators (KPIs) and provide appropriate tools, processes and reports to track their progress. Their insights gained while researching business operations and processes and financial performance can set the stage for meaningful discussions into variances and other drivers during the reports and management review meetings with appropriate outcomes for follow-up actions points.

One of the challenges faced by organizations relates to ensuring that strategy and long-term goals are not given a back seat in the daily management of routine business operations or other short term goals, as well as, ensuring that customer assets and people assets are not overlooked.

The finance and management accounting function can address this by including some of the relevant strategic metrics across the different dimensions, including customers and employees in the dashboards or scorecards. Linking employee bonuses and rewards to these objectives can also serve as a powerful tool to motivate and guide behavior and values towards achieving these goals.

Care needs to be taken to ensure that, while defining performance metrics, the data is reliable and is obtainable at regular frequency, and is without bias. Additionally, systems and applications that can help pull the data in an automated manner will help free up time from manual activities and allow for more value addition activities in understanding variances and developing insights.

A monthly review of the scorecard can help drive executives' attention towards areas that are behind goals and to understand reasons behind unfavorable variance shortfalls or overspends and help direct corrective measures as well as provide accountability. It is also worth pointing out that at a corporate level, where visibility is available on other parts of the organization, the management accountant at the corporate headquarters can play a strategic advisory role in diving into reasons for favorable variances and pointing out best practices and efficiencies that could be shared with other regional functions. The management accountant can take the lead in driving discussions around these topics, highlighting trends and variances and expectations for performance for the remainder of the financial year period.

An example is provided of a performance management application in a consumer retail organization, where metrics are tracked across four dimensions of Customers, Internal Processes, Employees and Financials. Other relevant dimensions and metrics can be adapted depending on the nature of industry and particular focus areas of specific metrics that business leaders would like to track. The level of percentage variances with plan and traffic highlights can also be adapted for individual organization's needs.

Working together with other functions, the management accountant can define the key metrics of customer focus that can communicate how well the company is stacking up against competitors. In the case of Customer Focus, the marketing function can—with the help of external marketing agencies—track certain metrics such as "spontaneous brand awareness", "brand loyalty" "market share" of specific focus groups and determine if this is improving over time. Other metrics that can be included to ensure customers have a choice in their product selection could include "number of products offered"—Refer to Figure 1.

The numbers in the table are given as an example with the traffic lights under the status column helping to highlight areas of concern. These can be determined and set up accordingly. In the case of the metric relating to new product launches—as the year to date and full year forecast performance have adverse variances of more than 5% versus Plan targets—these are highlighted in red. Accordingly steps needed to be taken urgently to understand the root causes and pursue remedial actions to rectify the situation. On the other hand, brand awareness has a favorable forecast for the full year and is expected to beat the Plan with a five percent favorable variance and, accordingly, is highlighted in green. Other metrics that are behind Plan, although at a smaller variance (less than -5%) and need to be looked into for corrective actions, include brand loyalty and market share, which are highlighted in yellow.

Internal processes metrics are set depending upon the nature of the industry that the company operates in. Typically, operational metrics are covered in this section that measure productivity and efficiency improvements or operational excellence. The operational metrics can include the following "percentage of automated volume" "same store sales" "time taken to launch new products or new stores" "percentage of customer issue resolved at first call" "service cut-off times" etc. The internal metrics can be benchmarked against yearly improvements required or industry standards or other best in class companies—Refer to Figure 2.

In terms of employee and talent metrics, several metrics can be defined to help measure employee satisfaction and motivation. Some metrics can include "training courses attended" "voluntary employee turnover" "internal promotions percentage". Confidential employee engagement surveys can be carried out at regular intervals which can help measure some of the metrics important to employee development. These can include feedback on management, communication and security indicators—Refer to Figure 3.

The financial metrics are the ones that would come most easily to management accountants by nature of their functional responsibility. These range from revenue growth, volume growth, profitability, cost improvements to other industry specific metrics—Refer to Figure 4.

Figure 1

Mertics	Status	Owner	2011 Full Year	2012 Plan Full Year	2012 Full Year Act/Fest	B/(W) vs Plan	Year To Date	B/(W) vs Plan
1 Brand Awareness (%)	●	VP-Marketing	60%	65%	70%	5%	65%	0%
2 Brand Loyalty (%)	●	VP-Marketing	50%	55%	53%	-2%	51%	-2%
3 Market Share (%)	●	VP-Marketing	6%	7%	7%	0%	51%	-2%
4 Number of new products launched	●	VP-Marketing	5.0	10.0	8.0	-2.0	0.0	-2.0
5 Advertising spend (INR Millions)	●	VP-Marketing	8.0	10.0	$10.0	0.0	6.0	0.5
6 Customer (#s Millions)	●	VP-Marketing	4.5	6.0	6.0	0.0	4.8	-0.3
7 Customer Retention %	●	VP-Marketing	60%	65%	70%	5%	65%	0%

Legend : Green = YTD/FY variance vs Plan positive; Red = YTD/FY variance vs Plan greater than -5%; Yellow = YTD/FY variance vs Plan below -5%

Figure 2

Mertics	Status	Owner	2011 Full Year	2012 Plan Full Year	2012 Full Year Act/Fest	B/(W) vs Plan	Year To Date	B/(W) vs Plan
1 Automated Volumes (%)	●	VP-Operations	30%	40%	40%	0%	35%	1%
2 Same Stores Sales (%)	●	VP-Operations	50%	60%	55%	-5%	51%	-2%
3 Time to open new stores (days)	●	VP-Operations	90.0	80.0	85.0	-5.0	85.0	-5.0
4 Customer issue resolution at first call (%)	●	VP-Operations	90%	95%	96%	1%	95%	1%
5 Extended Service availability (hours)	●	VP-Operations	10.0	12.0	12.0	0.0	12.0	2.0
6 Customer Satisfaction (%)	●	VP-Operations	85.0%	90.0%	88.0%	-2.0%	88.00%	-2.0%
7 Variable cost per Store (INR Millions)	●	VP-Operations	1.2	1.4	1.3	-0.1	1.2	0.0

Legend : Green = YTD/FY variance vs Plan positive; Red = YTD/FY varience vs Plan greater than -5%; Yellow = YTD/FY variance vs Plan below -5%

Figure 3

Mertics	Status	Owner	2011 Full Year	2012 Plan Full Year	2012 Full Year Act/Fest	B/(W) vs Plan	Year To Date	B/(W) vs Plan
1 Employee Engagement (%)	●	VP-HR	80%	85%	85%	0%	80%	0%
2 Training courses attended per Employee	●	VP-HR	3.0	4.0	4.0	0.0	2.0	0.0
3 Training costs per Employee	●	VP-HR	0.1	0.2	0.1	-0.1	0.1	-0.1
4 Internal Promotions (%)	●	VP-HR	5%	10%	10%	0%	5%	1%
5 Voluntary Employee Turnover (%)	●	VP-HR	30%	25%	25%	0%	20%	2%
6 Employees with Development Plans (%)	●	VP-HR	20%	25%	25%	0%	20%	-2%
7 People Cost per Employee	●	VP-HR	0.7	0.8	0.8	0.0	0.8	0.0

Legend : Green = YTD/FY variance vs Plan positive; Red = YTD/FY variance vs Plan greater than -5%; Yellow = YTD/FY variance vs Plan below -5%

Figure 4

Mertics	Status	Owner	2011 Full Year	2012 Plan Full Year	2012 Full Year Act/Fest	B/(W) vs Plan	Year To Date	B/(W) vs Plan
1 Revenues (INR Millions)	●	MD & CFO	550.0	680.0	670.0	-10.0	320.0	-4.0
2 Revenues Growth (%)	●	MD & CFO	30%	24%	22%	-2%	20%	1%
3 Volumes (Units)	●	MD & CFO	55.0	68.0	65.0	-3.0	31.0	1.0
4 Volumes Growth (%)	●	MD & CFO	30%	24%	18%	-5%	15%	-4%
5 Yield (INR/Unit)	●	MD & CFO	10.0	10.0	10.03	0.3	10.3	0.1
6 Operating Profit (INR)	●	MD & CFO	99.0	122.4	117.3	-5.2	57.0	0.0
7 Operating Profit Margin %	●	MD & CFO	18%	18%	18%	-1%	18%	1%

Legend : Green = YTD/FY variance vs Plan positive; Red = YTD/FY variance vs Plan greater than -5%; Yellow = YTD/FY variance vs Plan below -5%

As management accountants utilize the platform that the performance management area provides to help present insights and measurements against strategy, it is also worthwhile to take a look into the evolution that this role can take to enhance value to an organization.

Insights from the 2010 IBM Global CFO Study recognized four finance profiles which can be regarded as moving up the finance value chain, namely (1) Scorekeepers, (2) Disciplined Operators, (3) Constrained Advisors, and (4) Value Integrators. Beginning with a traditional Scorekeeper profile that has finance focus on data recording and controllership, the next stage evolves to Disciplined Operator where emphasis is on information provision, operations focus and performance interpretation. Further up the value chain as Constrained Advisors, finance teams are focused on interpreting analytics and driving optimal plan execution. With the evolution to Value Integrators, the finance function focuses on performance optimization, predictive insights, improved decision making and enterprise risk management.

Value Integrators excel in two key areas: Finance efficiency and business insight. Finance efficiency makes them scalable, agile and fast helped by introduction of automated processes and tools and high degree of process and data commonality across Finance organization. Additionally, with Business insight, the maturity level of Finance talent, technology and analytical capabilities dedicated to providing optimization, planning and forward-looking insights come to the forefront and enables an influencing role[3]. Management accountants would do well to see themselves develop across these areas and ultimately become value integrator contributors to the organization. ❐

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Effective Use of Directional Policy Matrix (DPM) as a Strategic Operational Tool for Improving Marketing Performance—An Overview

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"To the person who only has a hammer in the toolkit, every problem looks like a nail."
—Abraham Maslow

Introduction

Performance Improvement (PI)

Performance is an objective measure of expected result. From an organizational perspective, performance improvement is a process for achieving bench-marked organizational and individual results based on Vision, Mission, Goals, Strategies and Objectives of the organization.

Results are achieved and monitored through a well-defined mechanism that takes into account the organizational perspective, notifies desired performance, identify the gaps between planned and actual performance, pinpoints the root causes and selects interventions to close the gaps and measures changes in performance.

The following diagram depicts the factors that contribute to performance improvement and what can be done to strengthen them.

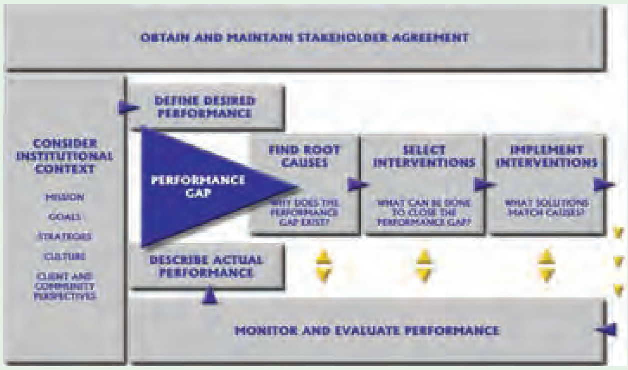

Figure 1: Performance Improvement (PI) Process Framework (Source: Performance Improvement Consultative Group, 2001 (124))

Basically there are two broad outlooks to improve performance: improving the measured attributes by using the performance monitoring platform more effectively, or by improving the measured attributes by modifying the performance platform.

An alternate approach to conceive the idea of performance improvement is to view it with respect to four key areas. **First** are the **INPUT requirements of resources** (for example, reduction of wastage in terms of raw material, idle time, process loss and so on). **Second** are the **THROUGHPUT** requirements where throughput implies the amount of raw material, service or data processed within a specified time. This is often measured in terms of time, waste, and resource utilization. **Third, OUTPUT requirements**, often viewed from the perspective of cost/price, quality or functionality. Fourth is **OUTCOME requirements** in terms of final output or deliverable.

Operational Strategies

In some ways the very phrase 'operational strategy' sounds like a contradiction in terms. An operation is, after all, about the day-to-day production and delivery of goods and services and functionally short term in nature. **Johnson and Scholes** define Strategy as **"the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and fulfill stakeholder expectation."** However, strategies are applicable at various layers and points in any organization—ranging from the overall business (long term and at the seniormost level of managerial hierarchy) through to respective functions of the organization and the individuals working in it (short term operational level).

According to **Slack and Lewis "Operations strategy is the total pattern of decisions which shape**

the long-term capabilities of any type of operations and their contribution to the overall strategy, through reconciliation of market requirements with operations resources".

Operational Strategy is concerned with how each part of the business, i.e., functions, are organized to deliver the corporate and business-unit level strategic direction. Operational Strategy, therefore, focuses on issues that include resources, processes, people, and performance.

Relevance of improving PI through Operational Strategies

With organizational environments getting competitive and complex day by day, it has become imperative to have a deeper analytical look into the idea of DPM.

In order to face the challenges of the new competitive environment, companies must provide a check and balance mechanism that is able to link both strategic and operational dimensions. For that reason, companies are required to have the right tools to face three major challenges :

- to innovate and introduce strategies in order to face changing market dynamics with practical and successful ideas;
- to seamlessly control and monitor operating performance with strategic objectives;
- to adjust organizational structure and manager commitment based on the corporate strategy.

Aim of the study

This paper primarily concentrates on analyzing the relevance and effective use of adopting **Directional Policy Matrix (DPM)** as an operational strategic technique for improving the marketing performance of an organization.

What is Directional Policy Matrix?

Most businesses have multi-products or services and operate in several markets. This created the need to prioritize in which markets to focus resources say, for example, in terms of sales and marketing activities. One effective approach to ensure such prioritization is the Directional Policy Matrix (DPM). DPM is also known as the GE Multi-factor Model which was first conceptualize by the General Electric in 1970.The axes on the DPM are evaluated according to the criteria that are internally fixed by the organization. These criteria provide a better assessment of the business sector and company's competitive position. It illustrates which segments the organization should put more thrust and actively pursue, and which segments that should be disinvested. This matrix measures the market prospects and organization's strength to pursue it.

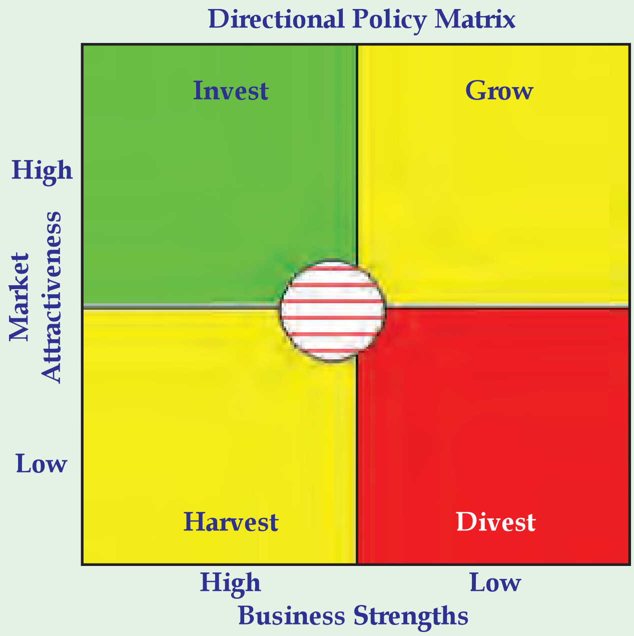

Figure 2 : Directional Policy Matrix (DPM)

The outcome of DPM analysis basically indicates the course of future investment and action. The recommendation may be to **"invest, grow, harvest or divest"**. The matrix shows the relative position of each segment using **'Relative Competitive Strength'** such as Price, Quality, Innovation and so on as the (horizontal) X-axis and **'Relative Segment Attractiveness'** such as Market Profitability, Growth Potential and so on as the (vertical) Y-axis. The diameter of each pie is proportional to the Volume or Revenue accruing to each quadrant, and the solid slice of each 'pie' represents the market share enjoyed by the organization. The organization should invest in opportunities (for example product or market) that fall in the first quadrant where it states 'Invest'.

The rationale is that the entity should invest in segments are attractive and in which it has established and enjoys some measure of competitive advantage. Oppor-tunities falling in the bottom right quadrant of the matrix are both un-tempting to the organization and in which it is competitively weak. Opportunities appearing 'in between' these extremes are difficult to analyze and decide upon. The organization has to take a strategic decision whether to put more effort expecting to achieve market leadership, manage them for cash as long as they are profitable, or abandon and disinvest.

The following table summarizes the positional implication of DPM

Invest	Grow	Harvest	Divest
High Market Attractiveness High Business Strengths This is the perfect desired situation. Organization's strengths are directed at a highly attractive market. Naturally, one should concentrate and invest the best resources in those parts of the business which fall in this quadrant	High Market Attractiveness Low Business Strengths This is in an uncomfortable situation. The market potential is attractive but the organization does not have the business strengths necessary to reap the optimum benefit. The options are either to take what one can while it is still possible or to invest in building a better competitive position. One must be selective in the efforts put in this situation as it will cost impact in every aspect of the business. A cost-benefit analysis may be suggested	Low Market Attractiveness High Business Strengths In this situation the organization has high strengths but the market has lost its attractiveness in terms of future potential. However, it may be worthwhile to consider for short term profitability and maintain status quo as long as it is profitable	Low Market Attractiveness Low Business Strengths This is a precarious situation. The market is not particularly attractive and the organization's business strengths are below average here. The organization may consider being in this segment only if it faces situations like it makes out for a range of product line or if it absorbs the overhead costs of more profitable segments

Directional Policy Matrix as a Strategic Operational tool for Improving Marketing Performance of an Organization

How is DPM constructed?

More often the variables to be used in for constructing the DPM are selected and weighted either by the organizational strategists or by senior decision-makers, say the board of directors, supplemented by business analysts who understand the trends and dynamics of individual markets. Let us discuss the major components of a DPM in detail.

What should be plotted on the matrix?

We would try to explain this with the help of a simple example that would help to understand and conceptualize the topic further. Let us assume a two dimensional market where multiple products are sold.

Table 1

		Products			
		P	Q	R	S
Markets	1		■		
	2	■	■	■	
	3		■	■	
	4				
	5				

A market segment is represented by each of the rectangles and the combinations represent the specific market with the following assumptions:

(a) the intersection of product functions PQR and customer groups 1, 2, 3;

(b) product functions A,B,C are for all customer groups;

(c) customer groups 2, 3, 4, are for all product functions.

Data pertaining to the product or service that the organization offers vis-a-vis the existing or potential markets is plotted. It is apparent from Table 1 that there exist greater than one markets or segments (at least three) on the vertical axis. Logically, therefore, this implies that there will be more than one "product" on the horizontal axis (in this case a minimum of three). Obviously, there can be more than three if the planner wants to analyze more than either one product or the aggregation of all products in any given market. The key point that one should keep in mind while plotting is **"an identifiable group of customers with requirements in common those are, or may become, significant in determining a separate strategy"**. The answer, then, is clearly a matter purely of management prerogative, and at the initiation of any analysis using the DPM, the most important priority to define correctly the unit of analysis cannot be over emphasized. The other point that should be kept in mind is the broader definition of the word 'market' demands. It may include Country, Region, Division, Subsidiary Market, and Distributor.

Business Strength (The Horizontal Axis)

The Business Strengths are the internal capabilities of the organization and are considered to be the **Critical Success Factors**. In other words these are the competitive strengths of the organization that needs nurturing in order to sustain market dynamics. This is easier said than done. The most practical way, probably, an organization may address this is to study and understand the genuine needs and wants of the customer group addressed. This is feasible by determining through effective market research how well these needs are currently being addressed by the offered products or services. The next step is to try and satisfy these needs better than the competitors.

The following tables illustrate how the attribute business strengths (Critical Success Factors) are represented in a measurable format :

Table 2 : Business Strengths: Should be identified from the customers' point of view

Weights : How important each of these strengths is out of a total score of 100.

	Business Strength	Weights
1	Price	30
2	Service	20
3	Quality	40
4	Image	10

Table 3 : Strength / Weakness Analysis: Score the Organization and each of the close competitors out of 10 on each of the Business Strengths and multiply the score by 100.

Competitors					
		Organization	Com A	Com B	Com C
Business Strengths	1	9 = 2.7	6 = 1.8	5 = 1.5	4 = 1.2
	2	8 = 1.6	5 = 1.0	6 = 1.2	10 = 2.0
	3	5 = 2.0	9 = 3.6	7 = 2.8	6=2.4
	4	8 = 0.8	8 = 0.8	5 = 0.5	4=0.4
Total (Score*Weight)		7.1	7.2	6.0	6.0

From the above table it is apparent that :

a. This organization is not the market leader.
b. All competitors score more than or equal to 6.0.
c. Two competitors have same score.

This is a very simple example as the calculation logic would not be able to effectively separate in order to point out the comparative strengths between the components in the product or market portfolio when an organization has multi-products. or markets This may be achieved by using a Benchmarking Ratio, as in the case of Boston Matrix. The ratio will indicate the position of the organization as compared to the market leader. In the example provided, Competitor A has the maximum score, although marginally more than the organization in question. Hence our organization probably needs to put a bit of effort in order to catch up with the "market leader".

So the weighted score of the organization should be expressed as a ratio of the highest weighted score (Competitor A). Thus 7.1/ 7.2 = 0.986 : 1. Thus the organization in question needs to improve by 1.4% to be even with the market leader.

Market Attractiveness (The Vertical Axis)

A common issue faced by managers while using the DPM is that the circles present scope for ambiguous interpretation as they do not appear in the matrix where expected. One of the main reasons for this may be attributable to incorrect understanding with respect to use of factors related to Market Attractiveness. Emphasis should be given on potential for growth, profit and so on in each of the markets or products. This is obvious as if a market is mature or even facing down-slope, and if there is potential and prospect for the organization to grow in these markets, then it would obviously be more commercially attractive as compared to one in which there was little or no potential. Same would be the case, for example if the organization already had a high market share.

Similarly, even though a market is turning out to be very profitable at present for the organization and if there is minimum prospect or potential for growth of profit, this market might be considered less attractive than one which was currently not so profitable to the organization, but that offered good potential for growth in profitability.

Case Study

Let consider an organization ABC Limited whose top line (Earnings from Operations) and bottom line (profits) was static for two consecutive years. The organization intentionally kept its shareholders at bay by selling off part of their assets. The Boards of Directors of the company tried to use and apply DPM concept in order to analyze the options and alternatives available to review the situation.

ABC Limited, a multinational company has interests in Airlines, Infrastructure, Power, Education and Engineering Consultancy. Only Engineering Consultancy division was in the growth market.

Considering market growth as a factor, all the divisions appear in the bottom half of the matrix except Engineering Consultancy division. The other factor used was Profitability, which in the case of Airlines and Education was high. The weighting of about 65 per cent on the profit factor pulled both of these divisions into the upper quadrants of the matrix. Strengths were different in each of the cases, and the resulting matrix looked as given :

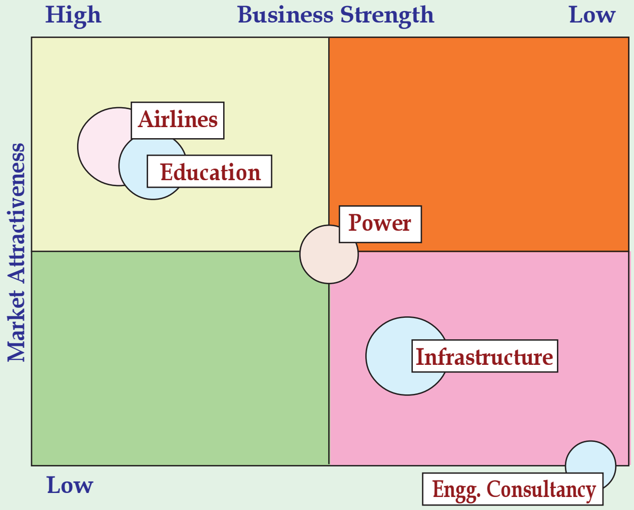

Figure 3

However, as both Airlines and Education Divisions had little (if any) potential to grow their volume and profitability in mature markets and whereas Infrastructure and Engineering Consultancy Divisions did, the circles were clearly in the incorrect segments. The reality facing the company was as shown :

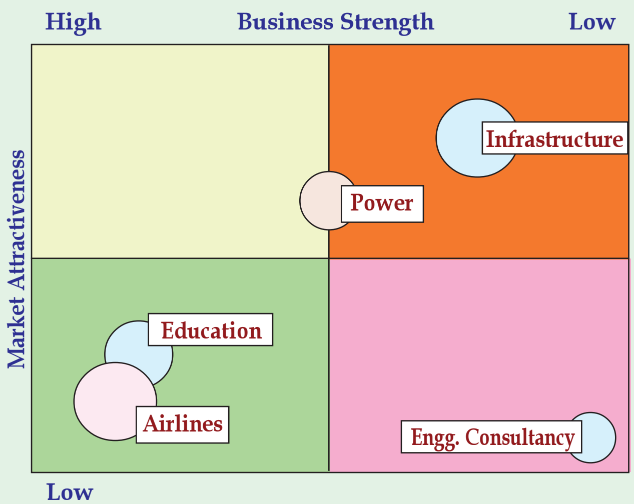

Figure 4

There was opportunity for the organization to invest in the Infrastructure Division, where it was comparatively weak. This is also true in case of the Power Division. Both of these markets had sizeable opportunity for the organization to grow in market share and strengths, on the assumption both of these markets were relatively mature. In other words, all we are really interested in is the growth potential of volume and profits. Based on the above conclusion, the organization then considered each division separately in turn and completed the DPM for each of their products and market segments in order to decide how their resources may be optimally allocated.

Conclusion

Directional Policy Matrix (DPM), even though conceptualized three decades ago still find its relevance, if used judiciously, as a strategic operational tool in performance improvement.

It provides an analytical framework for the strategic analysis of the market conditions and a model to perform a preliminary evaluation of business alternatives. Thus, in today's demanding business environment, DPM is a powerful and pivotal tool for improving organizational performance through strategic business planning. ❐

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Corrigendum

Shri Ayan Majumdar, co-author of the article titled ''Investment Allowance Reserve & Block of Assets : A critical look'', published on page no 844 of the July 2012 issue of the journal, is an Assistant Professor (Finance & Accounting) with St' Xavier's College, Kolkata and not with Netaji Open University, Kolkata which has been printed inadvertently. The editor deeply regrets for the unintentional error.

Performance Management—Thoughts and Applications —A Strategic Analysis

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One of the meanings of the very word ''Performance'' in dictionary is the act or process of performing a work or art or role before an audience especially in any theatre. The audience gets ultimate pleasure of entertainment and amusement when the acting and behaviour of the artists touches their hearts and minds. They appreciate the artist by cheering. At the same time, the artist also satisfies himself by delivering high. Hence we get the much simple definition of performance, which is Performance = Behaviour + Result.

Our context of analysis is neither artists nor the theatre. Nevertheless, we observe a close analogy between the theatre and business world. In business, the owners of the business are in the position of spectators or the very audience who appreciate good performance by rewarding the employees, departments or business units as done by the audience to artists by cheering. As a matter of fact, the competition is intensified in all spheres of business and profession after the adoption of globalisation and free-trade economic structure by most of the countries. Such a situation attracted performance management as a subject matter of tremendous importance in modern business world.

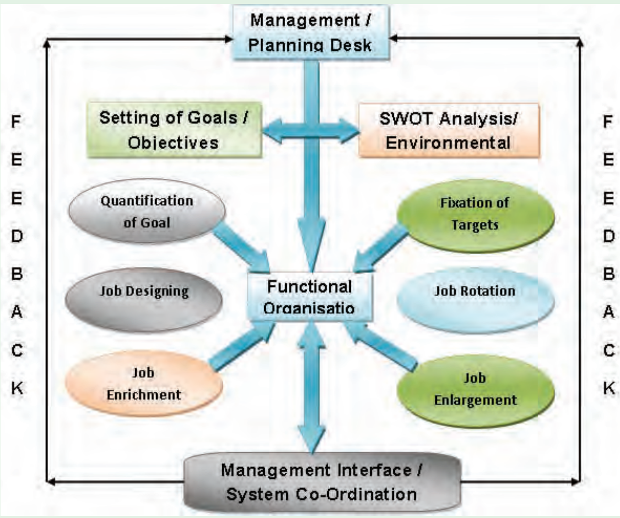
Performance management refers to a process of activities which are directed towards attainment of organisational objective in a consistent manner and hence it is the aggregate of performance management functions done at the levels of Strategic Business Units (SBUs), departments, groups, employees or even at any specific production process. A strong system of performance management can reduce cost, increase productivity and profitability and improve quality. As a process, performance management starts from the very beginning of framing the organisation's corporate mission statement and ends at the fulfilment of ultimate joint objective of profitability and customer satisfaction.

On the advent of globalisation and competition, the need of performance management is intensified at every step of management. A shareholder of a company wants profit from the shares he purchased by way of dividend as well as by capital appreciation or bonus. The board of directors wants to generate the maximum return on investment to satisfy the bankers and institutions who lent on the business. The top level managers want high productivity to meet the increasing market demand. Executives want to maximise efficiency to reduce time and cost so as to become more competitive. Hence competition has become the major driving force behind performance.

Idea of Performance Management System (PMS)—Theoretical View

Theoretically, the whole performance management starts from the very beginning of setting up the goal or objective of the business. The goals or objectives should be realistic and achievable. In order to transform the objectives into reality, the organisation analyses the opportunities and threats exist around it. Accordingly it has to well organise its functions and to translate the common goal into various quantifiable targets. Only organising the function is not sufficient. Some more managerial tools and procedures are to be followed, such as Job Designing, job enrichment and in some cases job rotation also. In this step, various function wise performance measurement parameters are to be set. The next important step is to chalk out a well designed interface system or inter-functional co-ordination mechanism. This inter-functional system should be capable enough to combat with any contingency situation. For smooth running of interface system, the organisation must have a strong internal reporting system. The benefits of all the steps described above will be lost unless the organisation has an unbiased and error-free feedback system. The planning desk will be able to judge the efficiency of the performance management system by a proper feedback system. At the last stage, the performance is to be reviewed on a periodical basis. The process of development of PMS is shown in Exhibit-1.

EXHIBIT-1



How the PMS can be developed

It sounds very easy to do the necessary things when discussed theoretically. But in practice any company or organisation faces extreme difficulties in designing or implementing a plan correctly. Such problems arise in many fronts—in terms of employees, operation system, marketing system etc. For an effective PMS, we need to understand the capacity of the human resources of an organisation to deliver according to the plan. Alternatively the plan should be tuned with the capabilities of available human resources. Any manager willing to develop a PMS has to understand the employees reporting to him. For the sake of analysis, let us refer such a manager and his team members as PMS Team. Ideally each member of PMS Team should possess the following characteristics —

- Proper job descriptions, i.e. Key Responsibility Areas (KRAs)
- KRAs should be aligned with necessary functions to be discharged by the concerned person.

PMS Team would be successful only if the following things happen :

- The Team Leader or Manager fully understands what the expected outcome is.
- Manager understands the skill sets of each of the members
- The Manager adopts appropriate division of work according to skills
- The team members are well aware about their KRAs
- The team members are motivated and devoted towards achieving their targets or fulfilling the respective KRAs
- There is an effective and constructive system of feedback procedure.

Hence ultimately the manager has to extract the desired behaviour from his team members so as the whole team deliver the desired result, and that is performance.

In the whole process, documentation plays a vital role in performance management. The documentation refers to measurement of performance as accurately as possible. For example, the Performance Appraisal Form (PAF) should contain the features like accuracy, feedback and rewards. PAF must be aligned to measure both quantitative as well as qualitative performance. An ideal PAF should contain the places to provide the following information as given in Table-1 :

Table-1

HR Information	Functional Information	Rating Information	Line Manager's Comment
Name & Designation	Basic Duties	Skill Set	Rules & Ethics
Date of Joining	KRAs	Decision Making Ability	Punctuality
Department	Roles to Play	Perception	Responsibility
Job Title	Special Job assigned	Man Management	Pressure Handling Performance
Pay Band	Targets assigned and accomplished	Administrative Skills	Loyalty to Leader
Type of review-Probation/Half Yrly/Qtrly/Annual	Problem Solved and Achievements	Timely Accomplishment	Team Work

In addition to above PAF, one performance meet should happen at regular interval which should explore the new ideas and thoughts for better performance management.

Functional Analysis of Performance Management

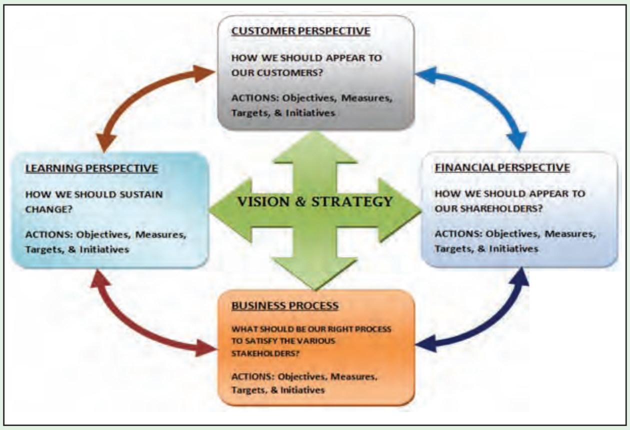
From the above analysis, we can conclude that every manager's effective designation is Performance Manager. He may be Accounts Manager, Business Manager, Sales Manager or Production Manager or even director or chairman of a company, but his actual role is embedded is managing performance according to his function designated to him. In this context, organisation's performance is a sum total of performances of each functions taken together. We know that organisation runs on several inter-personal transactions and interactions in between various groups, very often good performance is superseded by conflicts. That is why the ultimate objective of conflict management is to enhance the performance. In practice we can often observe that Finance department and Operation department engage in tussle regarding procedural formalities. It can arise on any issue including egoistic reasons but since both of these are construed as Performance Management units, the conflict can be resolved only on high performance by both. High performance of various functional managers are easily reflected by the simple parameters like, low Cost production, high quality products, higher Efficiency in operations, high profitability, high retention of manpower or higher realisation of value by shareholders

Evolution of Performance Management Techniques —Balanced Score-Card

Historically the Performance Management System has its origin in 19th Century in the USA while the commercial business houses set up. Later on during the first half of 2oth Century, we found renowned example of performance management in General Electric during 1950s. But till then performance management work was driven by conventional methods of standard costing and variance analysis. Around 1987, corporate strategist Art Schneiderman created the very first recognisable footage of performance management technique and he named it Balance Scorecard. In 1990, he joined in the study conducted by US management consultancy firm Nolan-Norton on performance management under the leadership of Dr. Robert Kaplan and David Norton. In 1992, Kaplan and Norton published their successful article on balanced scorecard technique.

The balanced scorecard (B.S.C) describes the way to translate the strategies into actions. It considers an organisation with four perspectives—Customer, Business Process, Learning and Finance. The basic idea behind the B.S.C is to alert the managers about the points of deviation about the performance and expectations. This was proposed by Kaplan & Norton because many organisations are found with high financial performances at the initial phase but could not continue pace of growth of their business in the long run either due to lack of customers or breakdown of business process or due to lack of adaptability with the modern trends in business. Today's business is fully customer-centric. So, more emphasis has to be on the satisfaction of customers' needs. The mission of the organisation would be drawn in line with focus on customer. Production, marketing and operation will have to be aligned in that direction only. Since the technological environment is very much dynamic nature and newer technologies are being introduced in all facets of manufacturing and production, learning should be chosen as a regular activity for the employees of the organisation. Financial perspective deals with the ultimate result of the whole process of meeting the expectations of the various stakeholders. The B.S.C. model of Kaplan & Norton is depicted in Exhibit-2.

Exhibit-2



In the model placed by Kaplan & Norton, non-financial parameters are more prominent than financial parameters and they classified the measures to be taken as ''Lead Indicators'' and ''Lag Indicators''. The indicator which drives the performance is known as Lead Indicator, and the indicator which shows the outcome is known as Lag Indicator. In B.S.C., the various numbers of financial and non-financial measures are chosen and targets are assigned to them so as to determine the deviations from the expectations. Four steps were taken for designing the B.S.C. —

I. Translating the Vision into Operational Goals.
II. Communicating the vision and link it to individual performance.
III. Business Planning and Index Setting.
IV. Feedback & Learning and synchronising the strategy.

In their model, Kaplan and Norton called these Lead Indicators and Lag Indicators as Performance Drivers and Outcome Measures respectively. But they always suggested using these indicators in a combination, as the cause and effect chain of goals and strategies are embedded in the Balanced Scorecard design. One example of Lead and Lag Indicators is- ''Motivated Workers are the cause of Customer Satisfaction'', where ''Workers' motivation'' is the Lead Indicator and ''Customers' Satisfaction'' is the Lag Indicator. Similarly, ''High Standard Processing System'' (Lead Indicator) results in ''Cost Efficiency'' (Lag Indicator). Various such combinations of Lead and Lag Indicators are jotted down in Table-2.

Use of the lead indicators alone without the lag indicators will neither disclose on how the outcome is achieved nor will disclose any early symptom about deviation from the strategic goal. So as a brief of the above analysis, we can conclude that the overall performance of the organisation as a whole can be analysed by lagging indicators which are the outcome of actions taken, i.e. lead indicators.

Table-2

Perspectives							
Customer		Financial		Business Process		Learning	
Lead	Lag	Lead	Lag	Lead	Lag	Lead	Lag
New Product innovation	Sales Growth	Survival in competition	Good Cash Position	High precision technology	Quality Improvement	Well designed training system	Learned Workers and employees
On Time Supply	Meeting Customers Demand	Success in competition	Periodical growth in Sales and Operating Profit	Efficient process of manufacture	Growth in production and Cost effectiveness	Automation Training	Time saving & Cost effectiveness
Timely Delivery	Customer Satisfaction	Flourishing Business	Growth in Market share and high equity price	User friendly product design	User comfort and growth of usage	Continuous Learning	Competitive Cutting Edge in Productivity
		Perfection in accounting		Minimised Errors in process	Low wastage of materials		
				Leadership	Empoyee retention		

Applications of PMS—Indian Context

On the study of performance management in India, we found that many corporates have exercised performance management successfully. Various Indian corporate and multinationals across the industries like automobile, banking, FMCG, Pharmaceuticals, logistics, aviation etc have embraced the methods of performance management system and streamlined their operations by de-defining goals & strategy, structures, managerial roles and KRAs. Besides the private sector, performance management function is considered as a standard exercise in many governments throughout the world including Indian government. Govt. of India adopted traditional rule-based approach in administration, system and process and performance management exists in the various functions like Budgetary Control, Performance Budgets (initiated since 1975-76), Zero Based Budgeting in various departments (started in mid-1980s), Outcome Budget etc. For the civil servants in India, closed door Annual Confidential Report (ACR) is traditionally applied for performance measurement/ evaluation. For the armed forces, different performance attributes are measured on a scale of 1:10 with more elaborate features. The focus of the whole exercise still continues to be on ratings and evaluation instead of performance planning, analysis, review development and improvements which ultimately enables employees to achieve superior performance. The gaps exist between the desired and the present performance appraisal systems are indicated in the Exhibit-3.

After adopting the liberalisation since 1991, the Govt of India rigorously started performance management function in its finance, planning & development, human resource, education, health, communication, scientific research, infrastructure etc. In order to facilitate PMS in its system, the Government has implemented satellite based speedy communication in all its departments, which substantiate the very existence of "Management Interface/System Co-ordination" given in Exhibit-1

EXHIBIT-3

Gap Analysis in Performance Management System

Present System	Desired System
Individual Ranking	Process
Appraisal	Joint Review
Periodicity – Annual	Periodicity – more frequent
Performance is not related to Pay	Performance related Pay
Rating System – Top-Down Approach	Rating System – Consultative
Directive System	Supportive System
Rigid System	Flexible System

The introduction of Right to Information Act is an example of implementation of PMS by the government. In April-2009, Government has published its Performance Management Guideline from the Department of Administrative Reforms & Public Grievances and accordingly took necessary actions on its implementation. Different approaches have been adopted for drawing the framework of PMS, i.e. Public Service Agreements, Strategic Plans, Pluri-Annual Planning Program, Balanced Score Card and Performance Contracts. It has identified the drawbacks in current system, like absence of appropriate HRM system, absence of Employees information system management system or absence of grievance redressal mechanism. Hence an Integrated approach is adopted in Performance Management System by considering the major three I's in performance management system, i.e. Individual, Institution and Intervention. In this 2009-Guideline, Government of India drawn up the PMS framework which is shown in Exhibit-4.

EXHIBIT-4

Performance Management Framework

PMS in Other Countries

Likewise, the Government of South Australia (GSA) believes on the conditions of success of performance management, i.e. staffs should be aware about their expected outcome and available supportive system. It relies on the thought that performance management should be considered as a positive process for growth of the people of the state. According to the Government of South Australia Guide to Performance Management, Chief Executives are responsible for managing their respective PMS policy, procedures and systems, where the Line Managers should take up the responsibility of performance management of the employees, providing feedbacks, guide development and implementing proper rewarding system for the employees. Employees are guided to produce quality performance by formal and informal participation in the whole process of PMS. Simply, by implementing the PMS guide, the Government of South Australia wanted a result-driven competitive public sector. Accordingly it has laid down the best management practices and the various codes of conduct for employees and employers in public sector to promote PMS. Moreover, the GSA has framed several fact sheets based on Leadership, Management Essentials, Skill Sets, Performance Management Toolkit, Competency Framework etc. In USA also, the PMS is implemented U.S. Office of Personnel Management is doing the function of performance management by planning, monitoring, developing and measuring the performance.

Challenges

In general people oppose change. Hence performance management system is also not an exception. Most often performance management faces the following difficulties while implementing:

- Fear of Measurement of performance
- Lack of understanding the PMS process
- Poorly defined goals and objectives. Unachievable goals cannot be met by PMS.
- Undefined performance targets are clubbed with undefined performance standards.
- Lack of co-ordination and feedback. People do not provide right feedback due to fear that it might attract punitive action.

We find our social system is full of such bottlenecks. Many students may often fears to appear in examination as it will measure their knowledge level, i.e. performance, staffs do not post their suggestions and feedbacks to management as they think the boss will punish those, huge sales targets are assigned without knowing the reality or environment or without caring the customers benefits.

Conclusion

Since any new method or application is difficult to implement in practice, it is also the case for perfor-mance management. Application of performance management is not possible in business or government activities unless it is adequately cultured within the various individual units in the society itself. Each of us is an unit in the society and if we manage our own performance for betterment, be it in education, arts, science, politics, business, sports, the whole population will experience an improvement. It is an ongoing process which must prevail at every minute of our activities. ❐

Performance Management and Growth of MSME Sector in India : An Overview

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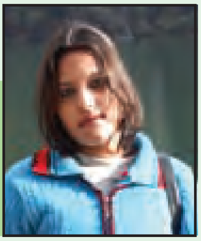


Introduction

Performance management and development are closely linked. Proper performance management leads to proper development. Performances of Indian MSME sector are in mentionable position in world MSME sector. For this reason, development of MSME sector has been a priority of the government of India and mainly due to its considerable contribution towards economic growth, employment generation, poverty reduction, and balanced regional development. This sector contribute nearly 8 % to GDP, 45% of industrial products, 40% of export value directly and 15% of indirect export value, more than 26 million units under this sector and near about 60 million people engaged in this sector. MSME sector has emerged as important vehicles for attaining inclusive growth of the economy and worldwide MSME considered as the growth engine of the economy. This sector is the second largest sources of employment. MSME not only provide good job opportunity but able to create more jobs with a lower capital comparing to other sector and are in unique position to use local resources and local talent. Their adaptability, ability to make cost-effective products with high degree of flexibility is remarkable. There are over 6000 products ranging from traditional to high-tech items are being manufactured by the MSME in India. The various types of industries are growing one in this sector and they includes: Coal mining, Metal mining, Crude petroleum and Natural gas, Food manufacturing, Mineral water, Beverage industries, Tobacco, Footwear, Wearing apparel and made up of textile goods, Wood, wood products and cork, Furniture and Fixture, Paper and Paper products, Printing & Publishing, Packaging and Allied industry, Leather and Leather products, Rubber and Jute products, Chemical and Chemical Products, Stone quarrying clay and sandpit, Petroleum and Coal products, Basic metal industries, Metal products, Electrical and Telecom machinery, Transport equipments ,IT and ITES, Agro and Service sector, Food processing, Pharmaceutical etc.

Definition of MSME

(a) Manufacturing Enterprises :

Manufacturing Sector		
Enterprises	**Investment in plant & machinery (INR)**	**USD($)**
Micro Enterprises	Does not exceed twenty five lakh rupees	Up to $ 62,500
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	Above $ 62,500 & un to $ 1.25 million
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	Above $ 1.25 million & up to $ 2.5 million

(b) Service Enterprises :

Service Sector		
Enterprises	**Investment in plant & machinery (INR)**	**USD($)**
Micro Enterprises	Does not exceed ten lakh rupees:	up to $ 25,000
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees	Above $ 25,000 & up to $ 0.5 million
Medium Enterprises	More than two crore rupees but does not exceed five core rupees	Above $ 0.5 million & up to $ 1.5 million

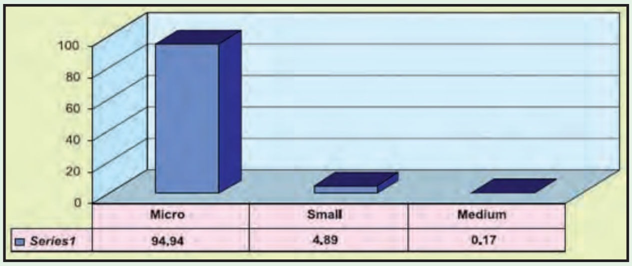
Methodology

The paper used secondary data and mostly based on descriptive research methodology. Secondary data from various government journal, MSME Act, various five years plans and newspaper are used. SIDBI report on MSME Sectors-2010, reports from ministry of MSMEs, Govt. of India, (Annual Report-2010-11 and others) are vastly used to present the performance position of Indian MSME sector. Data from various web sites also used to provide a quick overview of Indian MSME sector's performance in simple way.

Composition of Indian MSME Sector

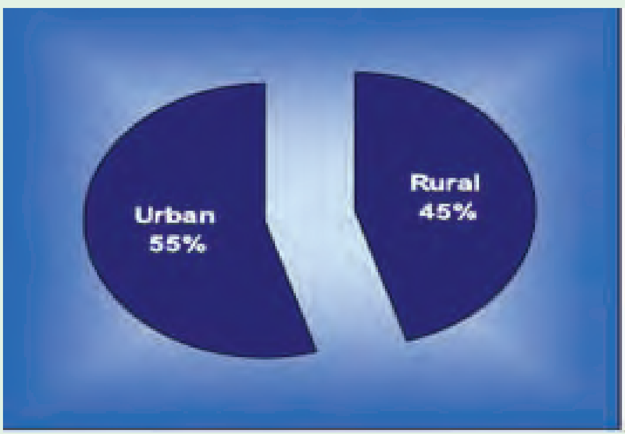
The size of registered MSME sector is estimated to be 15,63,974 and of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89% and 0.17% respectively. 67.10% are manufacturing enterprises and 32.90% are service enterprises and about 45.23% (7.07 lakh) of the units were located in rural arrears.

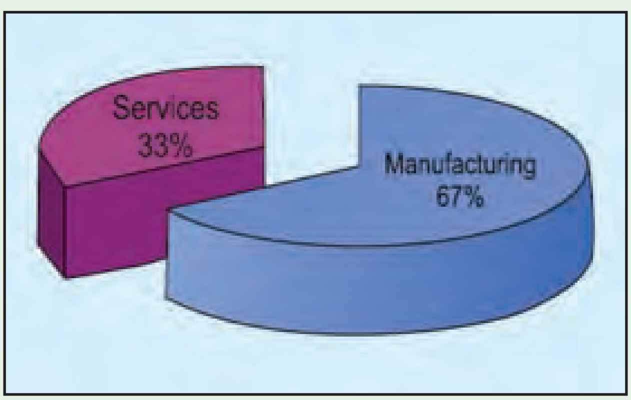
Micro, Small and Medium Enterprises in India



Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

Urban & Rural MSME and Manufacturing & Service MSME in India





Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

Structural Transformation of Registered MSME Sector

The economic parameter of MSME has undergone a significant transformation. Parameters are shown below as per all India first, second, third and fourth census. Parameters are ranging from working enterprises to type of organization.

Structural Transformation of MSME

Table-1

SL. No.	Parameters	First Census	Second Census	Third Census	Fourth Census
1.	Percentage of working enterprise	61.8	62.75	60.77	70.48
2.	Per unit Gross output (Rs. Lakh)	3.46	7.38	14.78	46.14
3.	Percentage of manufacturing enterprises vis-à-vis total no. of working unit.	100%	96.76	65.55	61.96
4.	Percentage of service enterprises vis-à-vis total no. Of working unit	–	3.24	34.45	38.04
5.	Per unit Employment	12	6	4.48	6.24
6.	Percentage working enterprise in rural area	35	42.20	44.33	44.47
7.	Employment per Rs. 1 lakh investment in fixed assets	20.75	3.94	0.67	0.19
8.	Percentage of closure of enterprises	38.2	52	39.23	21.6
9.	Fixed investment per enterprise in Rs.lakh	0.57	1.6	6.68	33.78
10.	Percentage No.of enterprises managed by				
	SCs	NA	6.84	7.85	7.80
	STs	NA	1.70	3.53	2.90
	Women	NA	7.69	8.32	13.48
11.	Percentage of sickness	NA	NA	13.98	14.47
12.	Type of organizations				
	Proprietary		80.48%	88.86%	90.67%
	Partnership	NA	16.84%	7.21%	3.74%
	Pvt. Ltd. Company	NA	2.01%	2.42%	2.63%
	Public limited Co.	NA	–	–	0.49%
	Cooperatives	NA	–	0.34%	0.29%
	Others	NA	0.67%	1.17%	2.18%

Sources : SIDBI Report on MSMEs Sector, 2010, NA: Not available.

MSME performances

The office of DC (MSME) provides the various performance parameter of MSME sector. MSME Act introduced in 2006 and after that year's data relating to this sector are properly complied. The following tables are showing the various performance parameters of this sector and data before 2006 only representing data relating to Micro and small-scale sector.

Table No- 2

Performance and Growth Trend of MSME Sector in terms of Units, Fixed Investment, Production, Employment and Export

Sl. No.	Financial Years	Total MSEs (Lakh)	Fixed Investment (Rs in Crores)	Production (Rs in Crores) At Constant Prices (1993-94)	Employment (lak Persons)	Exports (Rs. In Crores)
1.	1990-91	67.87	93555	84728	158.34	9664
2.	1991-92	70.63 (4.07)	100351 (7.26)	87355 (3.1)	165.99 (4.83)	13883 (43.66)
3.	1992-93	73.51 (4.07)	109623 (9.24)	92246 (5.6)	174.83 (5.33)	17784 (28.10)
4.	1993-94	76.49 (4.07)	115795 (5.63)	98796 (7.1)	182.64 (4.46)	25307 (42.30)
5.	1994-95	79.60 (4.07)	123790 (6.90)	108774 (10.1)	191.40 (4.79)	29068 (14.86)
6.	1995-96	82.84 (4.07)	125750 (1.58)	121175 (11.40)	197.93 (3.42)	36470 (25.46)
7.	1996-97	86.21 (4.07)	130560 (3.82)	134892 (11.32)	205.86 (4.00)	39248 (7.62)
8.	1997-98	89.71 (4.07)	133242 (2.05)	146262.9 (8.43)	213.16 (3.55)	44442 (13.23)
9.	1998-99	93.36 (4.07)	135482 (!.68)	157525.1 (7.7)	220.55 (3.46)	48979 (10.21)
10.	1999-00	97.15 (4.07)	139982 (3.32)	170379.2 (8.16)	229.10 (3.88)	54200 (10.66)
11.	2000-01	101.1 (4.07)	146845 (4.90)	184401.4 (8.23)	238.73 (4.21)	69797 (28.78)
12.	2001-02**	105.21 (4.07)	154349 (5.11)	195613 (6.06)	249.33 (4.44)	71244 (2.07)
13.	2002-03	109.49 (4.07)	162317 (5.16)	306771 (8.68)	260.21 (4.36)	86013 (20.73)
14.	2003-04	113.95 (4.07)	170219 (4.87)	336344 (9.64)	271.42 (4.31)	97644 (13.52)
15.	2004-05	118.59 (4.07)	178699 (4.98)	372938 (10.88)	282.57 (4.11)	124417 (27.42)
16.	2005-06	123.42 (4.07)	188113 (5.27)	418884 (12.32)	299.85 (4.44)	150242 (20.76)
17.	2006-07	128.44 (4.07)	213219 (13.35)	471663 (12.60)	312.52 (4.23)	177600 (24.54)
18.	2007-08***	133.68 (4.08)	238975 (12.08)	532979 (13.00)	322.28 (3.21)	NA

Sources: SIDBI Report on MSMEs Sector, 2010
***** Subsequent to year 2001-02 all figure are in 2001-02 prices. NA: Not Available.***
****** Projected, The figure in brackets shows the % growth over the previous year***

Comparison of the MSEs sector with the overall industrial sector

The MSEs sector has maintained a higher rate of growth comparing to overall industrial sector. Comparative growth rates of production for both the sectors are shown in table-2.

Table-3
Comparative Data on Growth Rates of MSE Sector

Year	Growth rates of 2001-02 base IIP (%age)	Over all Industrial growth rates of sector (%age)
2002-03	8.68	5.70
2003-04	9.64	7.00
2004-05	10.88	8.40
2005-06	12.32	8.20
2006-07	12.60	11.60
2007-08	13.00**	8.50
2008-09	Not Available	2.80
2009-10	Not Available	10.40

*** Projected, IIP - Index of Industrial Production,*
Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11

Contribution of MSMEs in the Gross Domestic Products (GDP)

Contribution of MSMEs in total industrial production and GDP is remarkable which is clear from Table No-03.

Table No-4
MSMEs contribution in GDP

	Contribution of MSEs (%) at 1999-2000 prices in: Total industrial Production	Gross Domestic Product (GDP)
1999-2000	39.74	5.86
2000-2001	39.71	6.04
2001-2002	39.12	5.77
2002-2003	38.89	5.91
2003-2004	38.74	5.79
2004-2005	38.62	5.84
2005-2006	38.56	5.83
2006-2007	45.62	7.20
2007-2008	45.24	8.00
2008-2009	44.86	8.72

The data for the period up to 2005-06 is for small-scale industries (SSI).
Sources: Ministry of MSMEs, Govt. of India, Annual Report-2010-11

Contribution of MSME in Export

MSE/MSME play a vital role in improving county's share in the world market. Exports from MSE/MSME sector have been registering an average growth rate of 20% in rupee terms since 1991-92. In a span of three decades, from FY 1973-74 to FY 2007-08, the total export from the country increased by more than 259 times while for the same period export increased in MSE/MSME sector by 514 times. As per SIDBI Report on MSMEs Sector, 2010, performance of MSME sector are excellent in area of Agricultural and processed food products (Percentage of share in total export: 70%), Cashew and cashew nut shell (Percentage of share in total export: 100%),Lac based products(Percentage of share in total export :100 %), Marine products Percentage of share in total export :100%), Readymade Garments (Percentage of share in total export :90%), Sports goods(Percentage of share in total export :100%), Wool and Wool Blended products(Percentage of share in total export :100%), for the FY 2007-08. Export performance of this sector will be clearer from following given table.

Table No-05.

Export Performance of SSIs / MSEs /MSMEs

Sl. No.	Particulars	FY 2005-06	FY 2006-07	FY 2007-08
1	Total Export of the country* (RS. Crore)	4,56,417.87	5,71,779.27	6,55,863.52
2	Export from MSMEs Sector** (RS. Crore)	1,50,242.02	1,82,537.85	2,02,017.46
3	Share of MSMEs in Total Export of the country (Percentage)	32.92	31.92	30.80
4	Growth of MSME Exports over the previous year (Percentage)	20.76	21.50	10.67
5	Growth of Total Export of the country (Percentage)	21.60	25.28	14.71

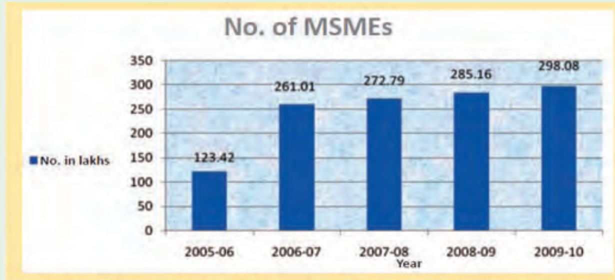
*Sources * Ministry of commerce and Industry*

*** Office of DC/MSME, Ministry of MSME, Govt. of India. & SIDBI report on MSME-2010.*

Performance of MSMEs at a glance as per fourth census 2006-07

(a) **Number of MSMEs :** As per fourth census the total numbers of MSMEs are 26 million units throughout the country and they are producing over 6000 products ranging from traditional to high-tech items.

Number of MSME in India in different years

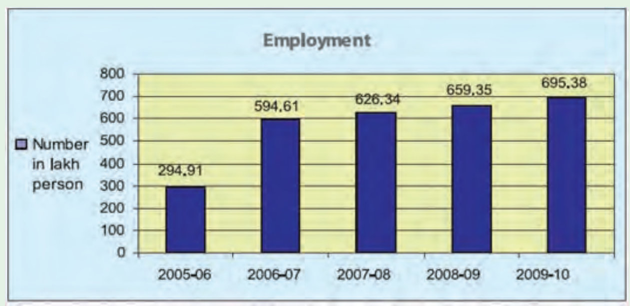


* Projected data for the year 2007-08 to 2009-10. ** Data for 2005-06 pertain to small scale industries (SSI) only.

Sources: Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

***(b) Employment in MSME Sector* :** The total employments in MSME sector are 594.61 lakh as per fourth census and as per estimates complied for the year 2009-10; the employment was 695.38 lakh persons in this sector. Moreover MSME sector provide the maximum opportunities for both self-employment and jobs after agricultural sector.

Employment in MSME Sector

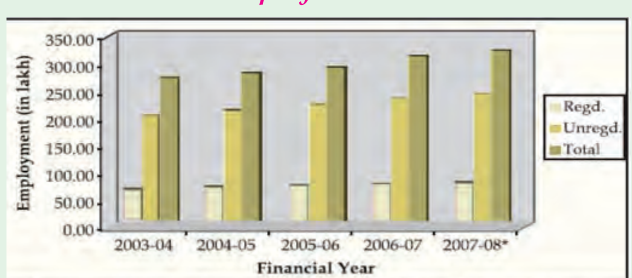


* Projected data for the year 2007-08 to 2009-10. ** Data for 2005-06 pertain to small scale industries (SSI) only.

Sources: Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

***(c) Growth rate in Employment in MSE Sector* :** Growth rate in employment in MSE sector considering both registered and unregistered MSE are remarkable which are clear from following Multiple bar diagram.

Growth in Employment in MSE Sector

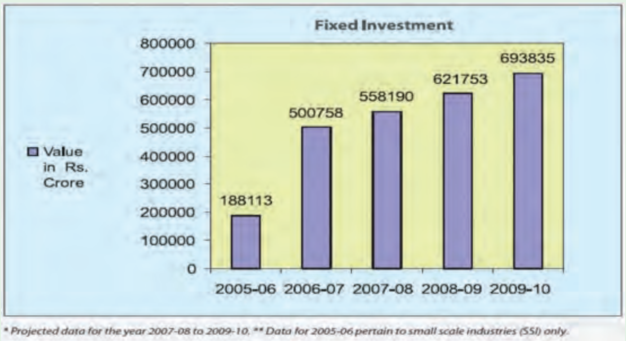


** Estimated (as per Annual Report FY 2008-09, Ministry of MSME)*

Sources: Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

***(d) Fixed Investment in MSME Sector* :** Fixed investment in MSME sectors are also going increasing at very fast rate, which is clear from following bar chart.

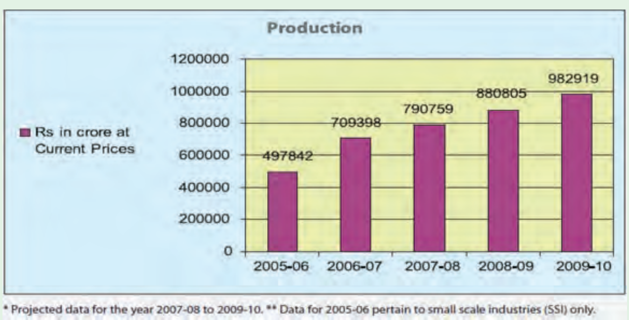
Fixed Investment in MSME Sector in different years



Sources: Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

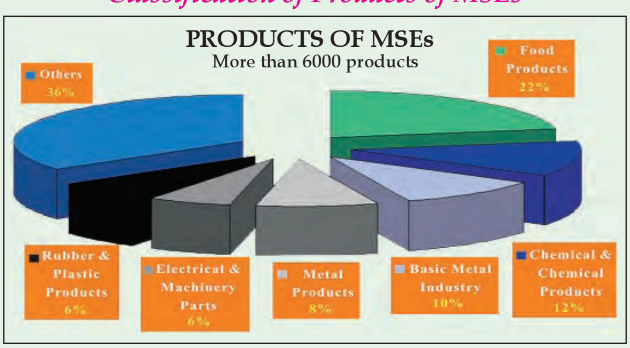
***(e) Production and variety of products in MSME Sector* :** As per fourth census, production in MSME sector in the year of 2006-07 was Rs. 709398 crores and this is increasing very sharply year by year. More than 6000 different types of products are produced by this sector.

Production in terms of Gross Output in MSME Sector



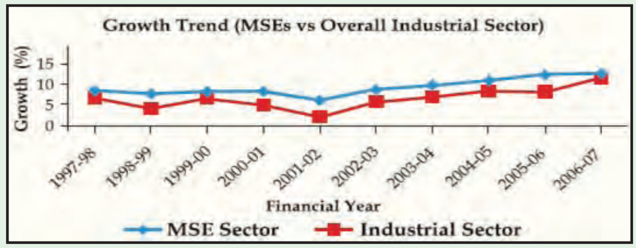
Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

Classification of Products of MSEs



Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

***(f) Growth trend of MSME Sector* :** MSME growth rate is also much higher than Industrial sector, which is clear from following line chart.



Sources : Ministry of MSMEs, Govt. of India, Annual Report-2010-11.

Conclusion

MSME sector has maintained a steady growth rate comparing to overall industrial sector. Export performance of this sector is very well and in few areas 100% export are only from this sector like in Marine products, Sports goods, Wool and Wool Blended products etc. Average contribution of this sector to GDP is near about 8%. Proprietary type MSME are observed the maximum and organization maintained by female are also more or less good (13.48%). working units also going to increases from census to census and it is 70.48% in fourth census. Most of the MSME are manufacturing enterprises. Micro enterprises are dominance one and they are 94.94% of total MSME sector. Employment generation capacities are also remarkable in this sector. It is also observed that variety types of products are produced by this sector. Numbers of MSME are also increasing very fast. So it can say that MSME sector occupies strategically an important position and its performance are very well comparing to other sector. There is much scope of research in these areas so that more MSME favorable policies can formulate and government being more aware in this areas and this sector can get proper infrastructure and other support for proper and timely development. ❐

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Performance Management Framework—An Overview of Recent Practice of Government of India

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Introduction

Performance management (PM) reminds us that being busy is not the same as producing results. Similarly training, strong commitment and lots of hard work alone are not results. The major contribution of performance management is its focus on achieving results—useful products and services for customers inside and outside the organisation. It redirects our efforts away from busyness toward effectiveness. Recently, organisations have been faced with challenges like never before. Increasing competition from businesses across the world has meant that all businesses must be much more careful about the choice of strategies to remain competitive. Everyone (and everything) in the organisation must be doing what they're supposed to be doing to ensure strategies are implemented effectively.

Oxford English Dictionary defines 'performance' as "the accomplishment, execution, carrying out and working out of anything ordered or undertaken." It means both behaviour and outcome; behaviours emit from the performer and convert performance thought to act (Brumbach, 1988). It is regarded as behaviour, the way in which the organisations, teams and individuals get work done (Armstrong, 2001). Performance is a crucial result-oriented term and for any given task, it is dependent on three variables known as 'AMO', i.e.

P = f (A, M, O), where P=Performance, A= Ability, M = Motivation and O= opportunity.

The term 'performance management' has evolved and continues to evolve and has undergone many changes since 1990s. It is "a strategy which relates to every activity of the organisation set in the context of its human resources policies, culture, style and communications systems. The nature of the strategy depends on the organisational context and can vary from organisation to organisation" (Institute of Personnel Management, now Chartered Institute of Personnel & Development, 1992). At present, more focus is on how it is embedding into the strategic management process to ensure that people are adding values to the organisation and from strategic angle, it is "a process that contributes to the effective management of individuals and teams to achieve high levels of organisation performance. As such, it establishes shared understanding about what is to be achieved and an approach to leading and developing people that will ensure it is achieved" (Armstrong & Baron, 1998). As an operational process it helps "organisations set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards" (Briscoe & Claus, 2008).

Performance management system (PMS) is a strategic and organisational approach, which describes, evaluates, executes and improves organisational performance constantly. It comprises of methodologies, framework and indication that facilitate organisation in the formulation of their strategy and make possible for employees to gain strategic insight, which permits them to face strategic assumptions, improve strategic thinking and inform strategic decision-making and learning (Marr, 2006).

Background & History of Performance Management—A Journey from Performance Appraisal to Performance Management :

Fletcher & Williams (1992) are of opinion that people have appraised each other's performance informally as long as human race has indulged in group activities. However the roots of the present formal appraisal systems were first observed in the work of F.W. Taylor before the World War I. Ratings of officers of US Armed Services were introduced in the 1920s and this spread the factories of US and UK gradually. At that time appraisal was **promotion-based incentive scheme**.

Appraisal systems of late 1950s focused on personality traits. McGregor asserted for job performance by assessing against set goals instead of appraising personality (Harvard Business Review, 1957) and tried to follow Drucker's 'management by objectives' (MBO) principles. As a result appraiser became 'helper' rather than 'judge' and the system became more **future-oriented** than ever before. However, the virtues of a participative and problem solving approach were being realised by the end of 1960s.

Beer and Ruh (1976) first coined the phrase 'performance management' in 1976 and it was formally recognised as a distinctive approach in mid 1980s. **Efficiency drives in** public sectors of many countries in the 1980s and 1990s further contributed to emphasise the notion that performance of individual should not be taken for granted and that higher productivity—a dimension of performance—could only be achieved through people. This led to the principle that good performance should be rewarded and bad performance should not be tolerated and be addressed by the management promptly (Martinez, 2000). In order to deal effectively with the pressure and changes in the current environment, organisations were seeking for effective management techniques that proposed organisations with sustainable competitive edge. Therefore PM became one of the approaches to achieve better results and that is why an increasing number of profit and non-profit seeking organisations are implementing PMS in a changing and dynamic environment of today's world.

Focus of Performance Management System (PMS)

Typically, by organisational performance we generally think performance of its employees/human resources (HR). However, PMS should focus beyond the HR. Because organisational performance is not a sole function of its HR, but joint and coordinated functions of the following several components :

- Strategic mission and vision indicates where the organisation presently is and where it intends to reach.
- Subsidiaries are organisation's components located in same or geographically remote locations. For e.g., parent company P may have three units viz., S1, S2 and S3 located in India, Malaysia and Japan, respectively.
- Departments are the parts of each unit. For e.g., administration, finance, R & D, Marketing etc.
- Policies and programmes are set by individual departments based on the capabilities and availabilities of the resources.
- Processes and projects are carried on under departmental programmes. Examples of processes include budgeting, product development, manufacturing etc. and projects include automation of billing, computerisation etc.
- Teams and groups of HR carry on each process/project to accomplish results for the stakeholders.
- Products and services are the outcomes of entire organisational activities and are intended for present and potential customers.

Given this framework, performance improvement implies managing performance of all the above components. However, amongst them, human resources directly impact and influence the performances of other components. Therefore, PMS should focus on management of employee performance directly and performance of other components indirectly. The focus of modern PMS of an organisation is shown in Exhibit 1 :

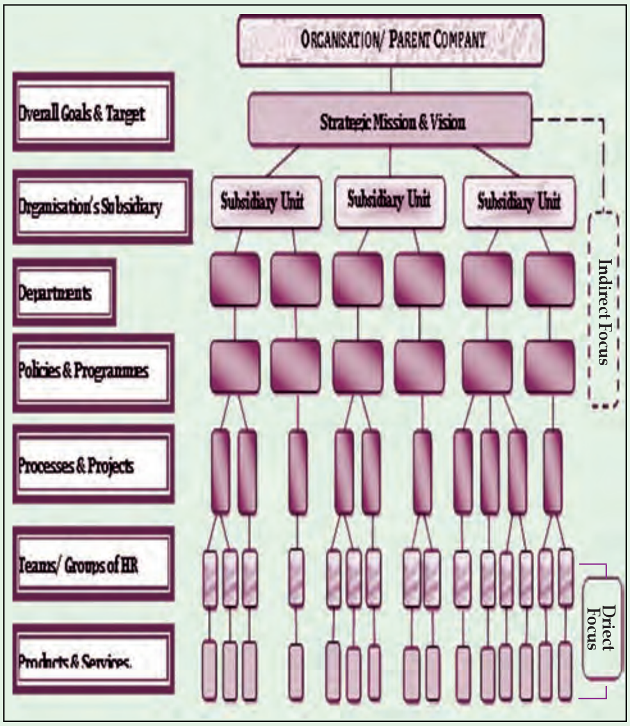

Exhibit 1 : Focus of Performance Management Systems

Components of Performance Management System (PMS)

According to Armstrong, in a standard model of PMS there are five main components which are :

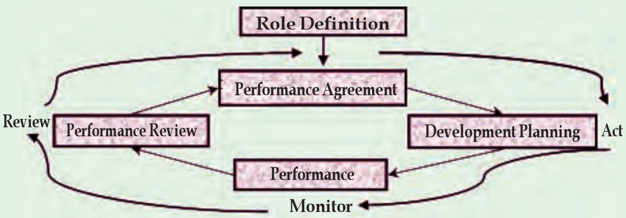

Exhibit 2 : Components of Performance Management Systems

1. Role definition identifies and establishes the major responsibilities of the role holder in terms of output and key competencies in terms of skills, qualification required to perform the jobs.

2. Performance agreements (Plans) may be in the forms of explicit contracts or less formal negotiated agreements. The elements of plans are the combination of objectives, standard of performance, performance measures and indicators, competence assessment and core values/operational requirements.

3. Development planning (Act) mainly assists to develop employees to enhance their levels of knowledge, expertise and proficiency in order to advance their performance in a particular area.

4. Performance (Monitor) means taking actions as per performance agreement as employees keep on their daily work and intended learning activities and also dealing with performance related problems and counselling.

5. Performance review (Review) covers achievement, growth and difficulties that require revision upon performance agreement and development plan. It provides a picture of past performance and enables to prepare plans for future. Instead of considering 'what happened in past', it emphasises on 'why it happened' and makes future performance planning more effective.

How to conduct Performance Management (PM)

PM process varies depending on whether performance is being managed for entire organisation, processes, subsystems or focus of performance efforts and who is in charge of carrying it out (for e.g. an accountant might identify more financial results such as ROI, EVA, whereas a psychologist might identify more human based approach such as employee productivity). However, the cyclical process of PM consists of some or all of the following main stages (shown with the help of a flow chart in Exhibit 3) :

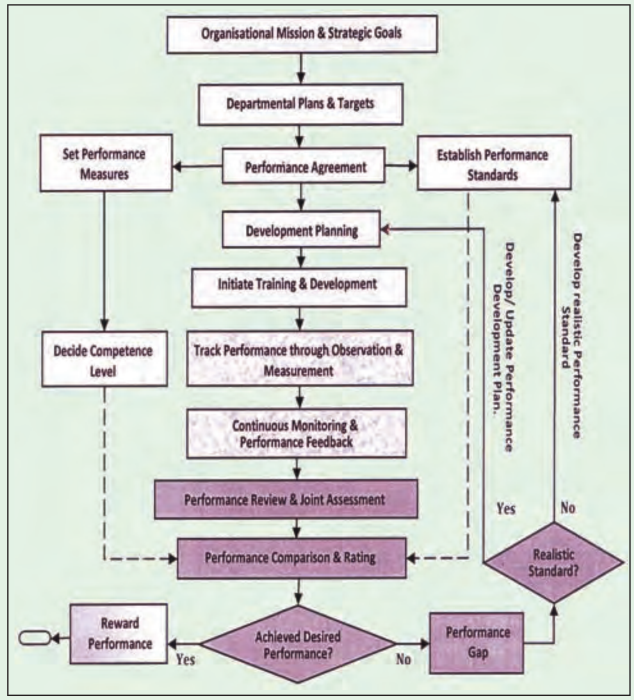

Exhibit 3 : Process of Performance Management

- ***Planning Work—Setting Organisational Strategic Goals & Expectations***

Planning is intended for setting performance expectations and goals, both for individuals and groups, in order to channel their efforts to achieve organisational objectives. Participation of employees in this stage helps them to understand specific organisational goals, requirements to achieve goals and how well they can be achieved. It results in formal/ informal agreement between the employee and his/ her superior. At this stage individual employee based performance measures and desired performance standards are set before hand. Performance standards help to evaluate how well the desired results have been achieved (for example, below/at par/above expectation). A simple performance measurement framework involves establishment of key goals and metrics, understanding performance and initiative for improvement. For all practical purposes, performance measures should be **'SMART'** i.e. Specific, Measureable, Achievable, Relevant and Timely.

- ***Building capacity to Perform*** **:** In order to develop the organisation, first assess and address the developmental needs of its employees. Employees' capacity to perform may be developed through training (for ordinary employees), development (for executives), improving work place and processes, giving assignments that require new skills or superior responsibilities etc. All these techniques help them to motivate for good performance with less stress and enhance job-related skills and competencies.

- ***Performance Monitoring* :** Monitoring involves conducting ongoing observations and measurements to track performance, exchange ongoing feedback about the performance of employees and work groups on their progress towards reaching organisational goals. Two most important aspects of measurement and monitoring are—the use of key performance indicators (KPI) to track performance and relate performance with outlays to output to outcomes. Such outlays-output-outcomes framework serves as a significant accountability mechanism. It also involves comparing and contrasting performance with the predetermined standards and targets. Monitoring helps to identify unrealistic or problematic standards so that they can be checked beforehand.

- ***Performance Review/Appraisal* :** A comparative analysis of performance should be done by means of performance review to identify the best employees or performance. If performance meets the desired performance standard, then reward the employee by granting grade pay increase, weightage for promotion, other incentives etc. Such review has a bearing on various other personnel's actions. If performance does not meet desired standards, then develop or update performance development plan to address the performance gap and performance appraisal indicates that improvement is needed. However, inadequate performance does not always signify that the employee is inefficient/below performed, rather it may happen due to unrealistic planning and standards, insufficient resources or unrealistic organisational strategies. Unless and until the desired performance is achieved, go for changing the standards to make them more realistic, building capacity of the employees to perform, arranging training and development etc.

- ***Rewarding Good Performance***

Rewarding implies recognising employees (individually or as a team member) for their performance and acknowledging their contributions to the organisation's goals. Rewards may be in monetary form as such, cash incentives, pay hikes etc. Non-monetary rewards such as formal recognition, saying "thank you", "congratulation" or lunch with the superiors may not have any monetary implications, but are most important.

Misconception about Performance Management

Many people mistakeperformance appraisal (PA) as same as PM. In reality, appraisal is one of the parts of PM, but not the only one. If anyone appraises only performance and forgets the other parts, PM will fail. Armstrong & Baron (2002) and many other experts tried to show the following distinctions between performance appraisal and PM :

Table 1 : Performance Management vs Performance Review

	Performance Management	Performance Appraisal/ Review
Aims & Objectives	Organisational, team and individual integrated objectives.	Individual objectives.
Frequency	Continuous review.	Annual review.
Performance Measures	Competency requirements and quantified measures.	Qualitative and quantitative measures.
Ownership	Owned by line management.	Owned by HR department.
Rating Systems	Joint or participative.	Top-down.
Focus of reviews	Future oriented.	Past oriented.
Reward linkage	No direct link.	Often linked to pay.
Emphasis	On ratings, evaluation and 360 degree feedbacks.	On performance planning, analysis, review, development and improvements.
Identification of developmental needs	At the end of the year.	At the beginning of the year.
Nature of service	It is service based.	It is professional based.
Monitoring & designing	By the Personnel/ Administration dept.	Designed by the Personnel/ Administration Dept., but could be monitored by the respective departments themselves.

Key Benefits of Implementing an Effective Performance Management System

PM is perhaps the most important activity undertaken by the managers in any organisation, be it government, corporate or others. A worldwide survey conducted by Watson Wyatt found that companies with strong PM programmes achieved better financial results than those with weak programmes. Glendinning (2002) identified several positive outcomes in its favour :

- Business objectives are realised.
- Planning for future HR is augmented.
- Improved employee work performance.
- Competitive advantage is achieved.

- Potentially advanced employees are identified.
- Improved quality of supervision.
- Improved morale.
- Improved customers' satisfaction.

Benefits of an effective PM framework include :

- It is result-oriented and focuses less on employee behaviour and activities. Thus an employee may get high rating who appears extremely busy, but contributing nothing towards the organisational goals.
- An effective PMS cultivates a system-wide, long-term organisational view in addition to outcomes and drivers without which actions will fail in future. For e.g., employee retrenchment will likely to produce short-term profits, but result in long-term loss of profits because of reduced productivity.
- It facilitates performance-based remuneration and rewards. Therefore employees can experience a clear link between their performance and the rewards they obtained.
- It is based on the philosophy ''what gets measured gets done''. As a result, entire system works together in pointing towards the critical bottom line 'measures', with bottom line 'results'.
- It results in continuous performance improvement, organisational development and cultural changes. It also enhances employee competence level through output-related training, development needs and strategies.
- It redirects attention from bottom-up approaches to top-down approaches (i.e. ensuring all subsystem goals and results are aligned first with the overall goals and results of organisation). Such strategic change helps to achieve quality, efficiency and effectiveness in all organisational activities.

Present System of Performance Management in Government of India

Performance Management System is introduced by the Govt. of India under the Performance Monitoring & Evaluation System (PMES). It aims to measure performance of government departments in a fair, objective and comprehensive manner to create a result-oriented government. Traditional Indian governance structures are rule-based the main focus of which is on process regulation and compliance with centrally prescribed standards and rules. Performance is measured in terms of money spent and the success of any scheme; programme is generally evaluated in terms of inputs consumed. Heavy focus on inputs for accountability and control has led to a situation in which civil servants are rarely held responsible for the outcomes. Compliance with rules is not sufficient for achieving outcomes; rather it is needed to develop robust indicators to assess the performance in terms of results.

- Earlier Performance Management System followed by Govt. of India :

India's earlier PM mechanisms consisted of :

Table 2 : Earlier Tools of Performance Management Adopted by Indian Govt.

Tools	Description
• **Outcome budget**	Aims to convert budget outlays into outputs and outcomes; for a given year it indicates physical targets of financial budget.
• **Zero-based budgeting**	Introduced in the mid-1980s and considers total proposed expenditures need to be justified.
• **Performance appraisal report**	Focuses on performance of individual govt. officials.
• **Annual report**	Published by all ministries/ departments to inform stakeholders about their activities and achievements.
• **Performance audit**	Undertaken by the Comptroller & Auditor General (CAG) of India to annually assess the economy, efficiency and effectiveness of selected public programmes.
• **Citizen's charter**	Written voluntary declaration by service providers about standards, accessibility and accountability. More than 600 charters have so far been issued.
• Sevottam	A service quality model based on 9 ''quality of compliance'' criteria covering 3 areas : citizen's charter, grievance redress and service delivery capability.

Implementation of Advanced Performance Management System

Considering the limitations of earlier systems, India's Second Administrative Reforms Commission, (ARC) 2005, recommended that Annual Performance Agreements be signed between the departmental minister and secretary providing physical and verifiable details of work to be done during the financial year. Following the Presidential Address to the Parliament in June 2009, the Prime Minister announced the introduction of Performance Monitoring & Evaluation system (PMES) on 11th September 2009.

PMES has been implemented in a phased manner by the Performance Management Division (PMD) of the Cabinet Secretariat. In Phase I (1st January-31st March 2010), 59 departments out of 84 were covered as pilot project. In the next year, under Phase II, 3 more departments and 760 subordinate offices were added. Now PMES is in its third year of implementation. The components of PMES are shown in Exhibit 4 :

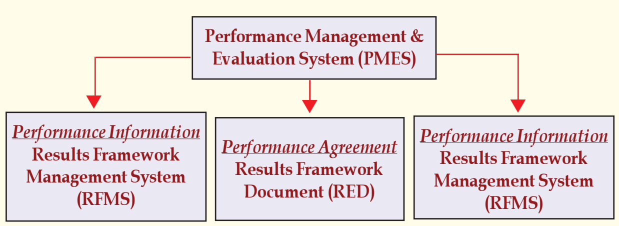

Exhibit 4 : Framework of Performance Management & Evaluation System

- ***Results Framework Management System (RFMS)* —** It is a Management Information System (MIS) that enables online preparation of performance agreement, achieving of performance information and generation of information for management and evaluation.

- ***Results Framework Document (RFD)* —** It is the essence of PMES as it is the agreement through which targets are agreed upon, indicators are listed and performance is evaluated.

RFD provides the following information :

***(1) Vision, Mission, Objectives & Functions of the Ministry* —** The four components are :

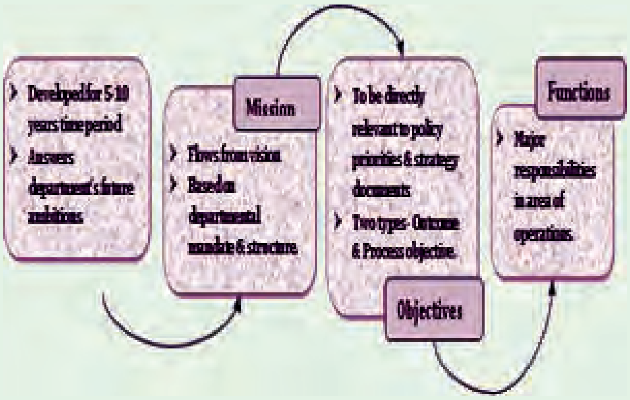

Exhibit 5 : Ministerial Vision, Mission, Objectives & Functions.

***(2) Inter se priorities among key objectives, success indicators and targets* —**

This section is the heart of RFD and provides a template consisting of key departmental objectives for the chosen year arranged in order of priority, relative weights of objectives, specific actions for realisation of the objectives, success indicators to evaluate and track the progress, relative weights for success indicators, target values for success indicators- such as excellent (100%), good (80%), poor (60%) etc. and calculation of scores of departmental performance.

***(3) Trend values of the success indicators* —**

These are decided based on actual values for the previous 2 years and projected values for the next 2 years.

***(4) Description and definition of success indicators and proposed measurement methodology* —**

Here departments are required to justify their choice of success indicators and the proposed measurement methodology.

***(5) Specific performance requirements from other departments that are critical for delivering agreed results* —**

This section contains expectation (quantifiable and measurable) from other departments that impact on the organisation's performance.

***(6) Outcomes or impact of activities of organisation* —**

This section contains the broad outcomes and the expected impact that the organisation has on national welfare.

RFD Process

RFDs are prepared at the beginning, reviewed in the middle, and evaluated at the end of the year. Joint Secretary of the departments acts as the Nodal Officer for RFD who would be responsible for coordinating entire activities with Cabinet Secretariat. Further a core team comprising 3-4 people from key divisions of the department undertakes discussions and consultations with various division heads to prepare initial draft of RFD. Draft RFD thus prepared is then finalised by the senior management. The RFD cycle extends throughout the year as shown :

Table 3—RFD Cycle

	RFE Time Table for the Year 2012-13
Beginning of the year	• March 5—Each agency submits final draft of RFD to the Cabinet Secretariat. • March 31—RFD is finalised. • April 15—Finalised RFD placed on Departmental websites.
During the year	• October 15—Prepare mid-year progress report for review by Ad-hoc Task Force (ATF) and High Power Committee (HPC). • November 1—Place progress report on Dept./Ministry websites.
End of the year	• 1st May, 2013—Prepare year-end evaluation report. • June 1—Place the evaluation results before Cabinet and on the websites of Dept./Ministry.

When	*What*	*Who*
5th March 2012	Submit final draft of RFD to the concerned administrative Ministry/ Dept.	RCs
1st May 2013	Submit year-end evaluation report on progress during the year.	RCs
1st June 2013	Place the evaluation results in the respective websites.	RCs

Note : RCs—Responsibility Centres.

Source: http://performance.gov.in/RFD/GL_RC_2012-13.pdf

Performance Related Incentive System (PRIS) — It is still in its evolving stage. As per the proposition of PMD, any department would be eligible for performance incentives if in its 2nd year of RFD preparation it secures a score of 70% or above and is having a biometric access control system in its office. Departments are to allocate 15% of savings as incentives for employees resulting from implementation of performance agreements.

Proposed incentives for different levels of officials are :

- **Secretaries —** Based on dept. performance in RFD.
- **Joint Secretaries —** Based on weighted average of their division and dept. performance.
- **Junior Employees —** Based on their individual performance.

Conclusion

The principles and practices of performance management are still in their evolving stages. Performance management is vital part of the management of any organisation. Each and every corporate and non-corporate entity has its own system of performance management framework.

The national governments of many countries of the world have established PM frameworks for planning and evaluating their performances for the national welfares.

India's PMES has succeeded in generating transparency in performance information of the ministries and departments of Govt. of India, especially that of senior management. Its gradual and systematic integration across the various institutions of the country would result in an effective, efficient, transparent and accountable set up. In this respect, implementation of PMES at the state level would also be a significant step forward. Up to 2011, Punjab and Maharashtra had already expressed interest and PMD is assisting them in the implementation process. PMES is expected to reengineer the entire systems for better results, improve service delivery and strengthen citizens' trusts in government. ❐

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Political Audit : An Overview

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Corruption is an abstract term. According to World Bank Report 1997 abuse of public power for private gains is described as corruption. But this appears to be too simplistic explanation of corruption. In fact it is a multi-faceted evil, which gradually kills a system. A basic conflict between the ethos and system has weakened the Indian polity. The feudal outlook of the ruling class polluted the people's mindset, which judge the status of an individual on his capability to flout the law to favour them. This is the reason why corruption is no more viewed by people with abhorrence in Indian society. Leaders like Laloo, Jayalalitha, Sukhram, Suresh Kalmadi, A. Raja, Kani Mohjhi and others, who are facing corruption charges, continue to have wide range of people's support. Transparency, respon-siveness, accountability, probity in public life and good governance are now only slogans. The legislature has failed to make the judiciary, executive and even media sensitive to the cause of the common people. The failure of the political leadership to take a principled stand against corruption has clouded the system to the extent that it is now difficult to understand whether the system is alive or dead [R. Upadhay (2001), Political Corruption in India—an Analysis]. In the present context corruption is so much linked with power that our politicians have adopted a cynical attitude toward political morality. Maneuvering the anti-defection law for electoral politics with the help of both money and muscle power and other unfair means for the sake of power have affected the political morality of all the political parties and, as such, none of them can claim themselves to be faithful to the nation in the true sense.

According to Wikipedia, Political corruption is the use of legislated powers by government officials for illegitimate private gain. Misuse of government power for other purposes—such as repression of political opponents and general police brutality—is not considered political corruption. Neither are illegal acts by private persons or corporations not directly involved with the government. An illegal act by an officeholder constitutes political corruption only if the act is directly related to their official duties, is done under color of law or involves trading in influence.

Forms of corruption vary, but include bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement. While corruption may facilitate criminal enterprise such as drug trafficking, money laundering, and human trafficking, it is not restricted to these activities.

Some forms of corruption can be controlled by audit like embezzlement of assets, misappropriation of cash and goods, and manipulation of accounts, and bribery. This type of audit is known as Political Audit.

What is Political Audit?

Political audit is a new branch of audit, which can be used in controlling corruption. In other words, Political Audit is concerned with review of the past performance to ascertain whether it is in tune with the objectives, policies and procedures of the ruling political party in centre or states.

"A political audit is an attempt to evaluate the performance of ruling political party in the states or centre".

"A political party is an attempt to evaluate the performance of various political decisions and functions. It is an audit to examine, review and appraise the various policies and actions of a political party on the basis of objective standards."

"The political audit is a comprehensive critical review of all aspects of the process of ruling political party and its manifesto."

"Political audit is a critical study of the manifesto of the political party."

Thus, Political audit is a new and unique concept and goes beyond the conventional audit. It is actually a comprehensive and a critical review of all aspects of manifesto of ruling political party. It is concerned with the appraisal of the efficiency of ruling political party's management in the Centre or states. It can be said to be an expansion of social audit and the idea has been developed by me.

Objectives of Political Audit

- To ascertain policies laid down by the Government (ruling party) for accomplishment of the basic aims and objectives.
- To ascertain procedures, plans, programmes through which the policies are to be implemented
- To reveal defects or weaknesses in any of the elements examined by the political audit team and to suggest improvements to obtain the best possible results of the operation of the programme.
- To evaluate performances by relating inputs (human and physical both) with outputs.
- To compare issues of manifesto with implementation by respective ruling party in a related constituency.
- To review the manifesto of the ruling party (declared by the respective party before election).

Scope of Political Audit

- The scope of political audit will be working areas of respective constituency like Lok Sabha or Vidhan Sabha. The tenure of political audit will be five years, if ruling party completes whole time (five years), otherwise time of political audit will be as per ruling time in respective constituency.

Subject Matter of Audit

The subject matter of the political audit will be the manifesto of the ruling party in the state or Centre. It covers :

- Issues of manifesto
- Plans of manifesto
- Policies of manifesto
- Programmes of manifesto
- Vision of manifesto.

Important Terms

Manifesto : A manifesto is a public declaration of principles and intentions, often political in nature. In some parliamentary democracies, political parties prepare electoral manifestos which set out both their strategic direction and outlines of prospects legislation should they win sufficient support in an election to serve in government. Legislative proposals which are featured in the manifesto of a party which has won an election are often regarded as having superior legitimacy to other measures which a governing party may introduce for consideration by the legislature.

Ruling Party : The ruling party or governing party in a parliamentary system is the political party or coalition of the majority in parliament. Within a parliamentary system, the majority in the legislature also controls the executive branch of government, thus leaving no possibility of dueling parties concurrently occupying the executive and legislative branches of government, such as in an American style presidential system where the party of the president does not necessarily also have a legislative majority while in Indian political system the party of the Prime Minister (in Center) or the chief minister (in a state) must have a legislative majority.

Constituency : An electoral district (also known as a constituency, riding, ward, division, electoral area or electorate) is a distinct territorial subdivision for holding a separate election for one or more seats in a legislative body. Generally, only voters who reside within the geographical bounds of an electoral district (constituents) are permitted to vote in an election held there.

What will be structure of Audit Team?

It is to be noted that neither the political audit is conducted in any country of the world nor prescribed by any law in India and world and, hence, Indian Government is free to take its own decision in regard to the appointment and selection of political auditor or political audit team. The Government of India may appoint any person to undertake political audit in its case, though invariably professional accountants and retired judge of the court are prepared for the purpose. A single person cannot handle this type of work, hence, for this purpose, an audit team should be framed. Hence an audit team will be a group of professional and highly experienced persons.

The structure of political audit team can be :

Chairman (1)

(He/She can be a retired judge of the Supreme Court and will be appointed by Election Commission of India)

↓

Members (6)

↓

Members (2)	**Members (2)**	**Members (2)**
They can be retired judge of the High Court and will be appointed by the state election commission	They can be professional person like chartered accountant/cost accountant and will be nominated by ICAI or ICWAI	They will be from respective constitutency where political audit to be conducted like Lok Sabha and legislative assembly. Both members will be nominated by district collector. They will be non political person.

Process of Political Audit

The Process of Political audit can involve the following main steps :

- To identify the objectives and policies of the ruling party.
- To collect the data from the respective constituency through filling questionnaire, schedules and observation.
- To compare the actual data (collected from public) with standard data (Plans, policies and objectives mention in the manifesto).
- To evaluate the performance of the functional areas (programmes or projects operational in the constituency).
- To suggest a more concrete and realistic course of action. This is the main purpose of political audit—to ensure that the ruling party operates effectively and efficiently by suitably adjusting its operations with the pre-determined objectives.

Techniques of Political Audit

The following techniques can be used at the time conducting the political audit :

1. Program Review **:** Program review evaluates the overall quality of ruling political party in a particular constituency. It is not criterion based but define quality relative to a political party's mission and usually relative to a program's political peers. It can be organized by an external agency.

2. Comparing **:** To compare points of manifesto with plans, programmes and policies enacted by ruling parties in a respective area.

3. Physical Examination **:** To examine actual existence of an item (or program/projects running by political parties) personal inspection by auditor/audit team becomes absolutely essential.

4. Public Feedback **:** Feedback is a process whereby some proportion of the output signal of a system is passed to the input. This is often used to control the dynamic behavior of the system.

Political Audit Report

The report of the political audit will be correct, concise, clear cut and comprehensive. The report would be courteously worded and the criticism made therein about the functioning or the decision making of the ruling political party would be constructive and healthy, i.e., without bias on his part.

The political audit team will submit his report to election commission and Chief Justice to the Supreme Court for taking necessary action against political party or members.

Format Of Public's Feedback

Name of Constituency.............. Name of MLA/MP.........................

District................................ Name of Ruling Political Party...........

State...

Item to be considered for Political Audit or Examination	Performance			
	Excellent	Good	Satisfactory	Poor
1. Behavior of the Ruling Political Party				
2. Social image of the party				
3. Sense of humor				
4. Help in the office				
5. Help outside the constituency				
6. Knowledge of current issues and ability to speak during working of parliament or assembly session.				
7. Available after the elections in the constituency				
8. Maintenance of discipline in the parliament/assembly				
9. Regularity in visit of constituency				
10. Presence in the House (Loksabha Rajysabha or Legislative Assembly)				
11. Contribution in the national or society building				
12. Contribution in the social and Human Movement				

Signature of the audit staff ....

Signature of the Respondent ....

Challenges for Political Audit

It is very difficult to introduce Political Audit in Indian Political System, because there are many challenges in the way of political audit. Some of them are :

- According to Indian Contract Act, 1872, under Section 2(h) and Section 10, a political transaction is a part of an agreement, not a contract. For making a valid contract, there must be an intention to create legal relations among the parties, that the agreement should be attached by legal consequences and create legal obligations. Agreements of a social, political or domestic nature do not contemplate legal relations, and, such as they do not give rise to a contract.

Hence, first of all, parliament must change the definition of a valid contract and after that a manifesto of the political party should be treated as a prospectus or memorandum of the association of parties, and should be considered as commercial agreements.

- Our political system is not qualified or competent for political reforms in India.
- The working areas Lokpal or Controller and Auditor General of India are mismatched in some issues and subjects. ❐

Cost Audit in Pharmaceutical Industry—Check List

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It is axiomatic that Cost Audit goes beyond just checking/ reviewing compliance with Government prescribed Rules and Proformae.

To ensure that Cost Audit borders on efficiency Audit, a comprehensive review of various operational areas and system followed there needs to be undertaken. An attempt is made in this article to streamline the Cost Audit process to generate the total picture with special reference to Performance Appraisal Report, which has become an integral part of Cost Audit Report. This has been done with keeping in view Pharma Industry.

While acknowledging that every Industry has its own peculiarities, many of the enquiry points may be equally applicable to other industries as well. Similar attempt may be made by members with experience in other industries to share their experience.

Indicative list of functional areas to be covered for Cost Audit is summarized :

1. Factory

1.1 Costing Department
1.2 Production Department
1.3 Materials Management (Stores—RM, PM & FG)
1.4 Quality Control Department
1.5 Engineering

2. HO

2.1 Corporate and Strategic Management (Costing department)
2.2 Marketing Department — Domestic
2.3 Marketing Department — International
2.4 Import Department
2.5 IT Department

3. HO & Factory

3.1 Finance Department
3.2 Capital Expenditure
3.3 Purchase Department
3.4 Administration Department
3.5 HRD Department

4. Depots

1. Factory

1.1 Costing Department

(a) Whether online product costing system is in vogue. If so, comparison between product-wise internal cost vs year-end cost records cost.

(b) Study of the existing Budgetary Control System.

(c) Quantity Tally Statement — RM/PM.

(d) Quantity Tally—Item-wise RM-wise consumption vs production adjusted for difference.

(e) Quantity Tally—Item-wise PM wise consumption vs production adjusted for difference - Major Item (bifurcated into primary and secondary packing) (also break-up of imported, indigenous and Self-manufactured).

(f) RM Item-wise Cost/unit, application to Finished Goods (Product-wise).

Cost Sheet—Adjusted for under/over Recovery.

(g) Whether costing department has worked out cost and saving of each project of R&D Bulk Drugs and Formulation? Especially for process improvement area.

(h) RM & PM : Item-wise excess consumption in % and treatment in cost.

- No. and Percentage of batches spoiled.
- Batch-wise actual overage percentage (minimum as per pharmacopeia).
- Item-wise leftover quantity in stock after export production.

(i) Packing Material (Quantity) — Item-wise Aluminium foil, Bottles etc.

- Standard vs Actual.

(j) Utilities (power, steam, chilling plant, DM water, ETP Plant, Compress Air, Air Conditioning, Air handling, Distilled water)

- Technical data for cost allocation
- Energy Audit aspects

(k) GMP areas audit.

– GMP Check list.

(l) In process breakage percentage of bottles, ampoules and vials vs industry norm & DPCO norms.

(m) Machine breakdown and repair history card.

(n) Production planning review—'stock out situation'.

(o) Audit of Para 11—Reconciliation of Indirect Taxes.

(p) Overhead apportionment basis and consistency in method.

(q) Mandays—Standard vs Actual, separately for Production, Packing, others, total—Reasons for variation.

– Current year (CY) vs previous year (PY).

(r) Item-wise Conversion cost per manday—CY vs PY.

(s) Product-wise Cost of Production (COP), Cost of Sales (COS), Sales Value, Margin per unit- CY vs PY – explanation for significant variations.

(t) Details of samples issued—quantity and value.

(u) Valuation of free samples, sample packs & transfer of its values as selling overheads under same product group irrespective of the pack.

(v) Compliance with Cost Accounting Records Rules, CASs & GACAP.

1.2. Production Department

(a) Whether comparison of actual production with that of programme is made stating reasons for variances on the following lines and the action taken on them :

- Changes made by the Marketing Department.
- Changes due to shortage of Raw Materials and Packing Materials.
- Changes as per Export Department instructions.
- Changes due to Plant repairs and maintenance.

(b) Product-wise Yield—Standard vs Actual—Reasons for significant variations.

(c) Bulk drug production loss and reasons.

- Product-wise & batch-wise—Daily, monthly, yearly.

(d) How overtime is controlled?

(e) What is the procedure for rejected/unusable materials disposal –

- Raw Materials —rejected on re-testing.
  —rejected in process, etc.
- Packing Materials—unusable/rejected/surplus.

(f) Whether the list of various licenses with due date are prepared? Whether they are renewed in time?

(g) In case there is delay in renewal of the license, what are the reasons and the penalty amount, if any paid?

(h) Whether the reports of 'Loan License' and TPM (Third Party Manufacturers) parties are kept for :

- RM & PM—Quantity Tally.
- Production.
- Return/Rejection of Inventories.
- Stock of RM, PM with LL Party.

(i) Batch size-wise number of batches (Small quantity batches uneconomical).

(j) Change over time losses for batches.

(k) Cause-wise analysis of machine down time to avoid controllable cause.

1.3. Materials Management (Stores—RM, PM & FG)

(a) Whether there is proper accounting for materials sent out of the factory on returnable gate pass system, including the rejected materials, materials sent for re-conditioning etc.?

(b) For Issue made to loan licensee parties (for job work), are records maintained separately?

(c) What is the procedure for materials 'received back' from loan licensee parties?

(d) Are excess materials from various departments returned promptly to stores and recorded immediately?

(e) Whether the stocks of export goods (RM, PM and FG) sent to the user department, i.e. Export Department, on a regular basis for suitable action?

(f) Whether proper stock records of rejected materials pending for disposal are kept?

(g) Whether stock records for loan license party is kept separately?

(h) Loan license party audit.

- RM, PM, FG—Quantity Reconciliation.

(i) Are steps taken to sell slow-moving items before the expiry date?

(j) Stores and spares and repairs and maintenance: expenses analysis from justification angle.

(k) In case of TPM, whether proper monitoring is done for RM, PM purchased by the TPM?

(l) Age analysis of Finished Goods to control & take timely action on sale of formulations nearing expiry.

(m) Insurance of stock—run out, overstocking/ material indented and not consumed for more than 6 months.

(n) Rejections and return of goods and replacement.

(o) Slow-moving items and steps to be taken.

(p) Advances given and stores not received for long time.

(q) Machine sent for repair and not received for a long time.

(r) Sale of scrap/unserviceable items.

(s) List of purchase orders not executed for a long time.

(t) Club the sale of spares of the same model of machinery along with sale of old machinery.

(u) Standardisation of machinery with same model in case of more than one machinery, so that inventory of the spares will be reduced.

(v) Inventory level at the shop floor be reviewed from time to time to minimise the inventory.

(w) Common items of stores and spares should have centralised inventory report in case of group companies or company with multiple location factories.

(x) Strict policy on quick lifting of rejected material by the vendor.

(y) Control on non-stocking items lying in stock.

1.4. Quality Control Department

(a) QA department Audit—scope & review of the report submitted.

(b) What is the percentage of rejection for RM, PM and FG?

(c) Whether review is done for the Annual Inspection Report of FDA?

- What are Management's replies/comments on the Reports?
- What action FDA has taken on the reply?

(d) What is the procedure of destruction of Control Samples after expiry?

(e) QCL: schedule for disposal of 'date expired' samples by QCL.

(f) Whether review is made for the Market complaints?

(g) Whether review of Quality Control rejections for RM & PM is carried out with respect to —

- Whether payment has been made for the materials rejected, which are either lying in the factory premises or returned to the party?
- Whether any printed PM are returned to the party?
- Whether any party has been black-listed?

(h) Whether any export products are lying for more than 6 months after the first release for shipment, without quality control testing?

(i) Whether quality control department has affixed the labels as 'Under Test', 'Approved', 'Rejected' on all the raw materials and packing materials?

(j) Time gap between GR note and actual approval date.

1.5. Engineering

(a) Ratio of steam to fuel (coal, oil etc.).

(b) Quality of coal—railway, truck etc.

(c) Transit loss percentage of coal.

(d) Power factor, MD - sanction vs billed

(e) Machine-wise electric motor load factor.

(f) Power shutdown, breakdown, load shedding etc.

(g) Average no. of workers employed vs budget for—electrical, power, boiler, mechanical, building repair, workshop etc.

(h) Consumption of store and spares—actual vs budget.

(i) Manufacture of machinery spare parts—actual vs budget in quantity and value.

(j) Stock level of coal, oil and outstanding payable —coal quota, deliveries, wagon allotment.

(k) Important pending repairs or overhauling jobs on hand or with outside parties.

(l) Schedule for preventive maintenance and maintenance audit to reduce down time.

(m) Use of good quality and original grease, oil etc.

(n) Ball bearing—change in pair and not one side of the shaft.

2. HO

2.1. Corporate and Strategic Management (Costing Department)

(a) Finished goods 'breakage analysis' and 'claim analysis'.

(b) Export profitability—country-wise, product-wise, Invoice-wise.

(c) Quantity Tally—Production to Dispatch to Sale, Sample, Returns, etc. — with Finished Goods Stock adjusted.

(d) Quantity tally of Finished Products (Formulations)—Opening Stock, Production, Sales, Sales Returns, Closing Stock, Free Samples, Losses (Breakages etc).

(e) Activity based costing for service cost centres—basis of cost apportionment.

- Whether ABC technique followed for service cost centres like R & D, QCL, Engineering, Purchase, Selling and Distribution.

(f) Check actual prices realized against Govt. controlled prices to ensure that actual sale price is not exceeding Government controlled price under DPCO.

(g) Transfer prices for captively consumed Bulk used in formulations—How fixed? Its impact on profitability.

(h) Plant-wise tracing backward of Finished Goods Stocks and Sale of formulations effected from Depots (from batch number identification) for working out plant-wise profitability.

2.2. Marketing Department—Domestic

(a) Whether checking is done once in a year. (Extent of checking—once in a year), for the following areas —

- Incentive Scheme
- Invoice checking with price list
- Finished Goods stock
- Travelling allowance bills
- Transportation bills
- PSR expenses and their personal records for attendance, leave etc.
- Special discounts.

(b) Whether performance evaluation is made for targeted sales vs actual sales?

(c) Marketing—promotional cycle—timeliness of samples received by PSR.

(d) Promotional material—distribution in time as per cycle, effectiveness & cost control.

(e) How transportation arrangements are made and whether the bills are checked?

(f) Whether there is proper follow up of clients' overdue outstanding and Government outstanding?

(g) Whether Party's sales tax, drug licenses numbers etc. are mentioned in their order/ receipt?

(h) Whether the rate billed as per invoice tallies with the price list and the latter on to the stock list rate? (specifying prices for various batch numbers location-wise).

(i) For overdue interest are debit notes prepared and included in subsequent invoice?

(j) What procedure is in operation to ensure that all dispatch notes are duly covered by sales invoices?

(k) Whether dispatches are made for the parties whose earlier amounts are outstanding for longer duration?

(l) How are the claims/complaints dealt with?

(m) Whether party-wise/area-wise/PSR-wise, free replacement are analysed?

(n) What terms and conditions are laid down with respect to breakage and shortage?

(o) Under exceptional circumstances, whether the claim sheets are approved by the Marketing Manager?

(p) Special marketing/promotional activities conducted for new product launches?

(q) Expiry/breakages/Returns.

(r) Disposal of Expired Medicines.

(s) Product-group-wise promotional activity/ expenses details.

2.3. Marketing Department—International

(a) How are the complaints with respect to quality and breakage dealt with?

(b) Export order—delay in execution and reasons for 'goods sent by air'.

(c) How the follow up is made for duty drawback claims?

(d) How export costing and pricing is done for Bulk Drugs and Formulations?

(e) Negotiation of C & F Agents rates.

(f) Proper scrutiny of bill of C & F agent's, specially items without supportings.

(g) Avoid ECGC cover and to verify risk rating as per the chart.

(h) Avoid L/C and its amendments.

2.4. Import Department

(a) Whether any insurance claims are pending?

(b) Whether the goods are imported by air or by sea?

(c) Whether any demurrages are paid?

(d) Whether clearing and forwarding agents' bills are checked?

(e) How the import licenses are disposed off?

2.5. IT Department

(a) Time taken in solving user problem.

(b) No. of new areas covered and pending position.

(c) Disaster management—data back-up system.

(d) Downtime records of PC, Printers etc. and no. of standby machines for this purpose.

(e) AMC contract review for hardware & software.

3. HO & Factory

3.1. Finance Department

(a) Whether checking is done for interest charged by the bank on TL, WC loan etc.?

(b) Whether there is any delay in obtaining bank credits — TL, WC, EPC etc.?

(c) What are the basis of charging telegraphic transfers and other fund transfers?

(d) Freight charges :

- What is the basis of charging freight by the party?
- Is there a weighing scale or the weight given by the transporter is taken for granted? If so, what check is kept to ensure that the correct weight is charged?
- Whether proper L/Rs. received in all cases?

(e) What is the time lag for depositing outstation/ local cheques?

(f) Whether periodical scrutiny of Bank reconciliation is carried out?

(g) Whether Assets records are kept up-to-date for Insurance purpose?

(h) Whether pending 'C' Form statements are received on quarterly basis from Bombay and Depots?

(i) Whether payment for demurrages is properly recorded, analysed & reviewed?

(j) Risk Management (Insurance)

— Self-Insurance – in case of multiple cars owned by the company.
  – for goods-in-transit risk (raw material and finished goods).
— Loss of profit (LOP) policy—review its benefits—can it be stopped?
— Study thoroughly suggestions given in the regular insurance inspection report submitted by the insurance company for suitable implementation.

(k) Travelling expenses

— Hotel tariff with AP/EP—avail full benefits under these plans.
— Fix one hotel in each city and negotiate for maximum concession.
— Avoid air travel, in case train journey can be covered by overnight.
— Control on miscellaneous expenses and expenses without supporting.
— Avoid trip, if work can be managed through STD calls or internet chat.

(l) Telephones

— Fix time stopper on telephone lines for local call and STD calls.
— Encourage STD calls from residential lines at concessional time rate.
— Use of VSAT facility instead of STD.

(m) Hiring of private taxis on permanent basis, rather than owning a car by the company for its executives.

3.2. Capital Expenditure

(a) Checking of justification for incurring the Capital Expenditure.

(b) Comparative study of actual benefit vs estimated benefit as per sanctioned proposal.

(c) Avoid purchase of additional spares along with the machinery, especially in case of imports.

(d) Costly machine need not be always uneconomical—cost/benefit analysis to be made before selection of a particular model, e.g., thermopac boiler of Thermax.

(e) Avoid over-size HP of electric motor for machinery.

(f) RCC Slab—plywood finish (plastering not required) vs ordinary finish.

(g) Involvement of insurance consultants to discuss building plan and machinery layout to minimise insurance premium.

3.3. Purchase Department

(a) Whether the check list for assessing the new supplier is prepared?

(b) No. of new vendors introduced during the year for major products.

(c) Whether factory visit is made for existing/new vendors?

(d) Use of Internet for development of substitute products/vendors?

(e) Collaboration with Industry Research Associations for development of substitute/new products for RM & PM.

(f) Extent of use of system of E-procurement.

(g) List of indents lying for more than one month for placing orders.

(h) Pending purchase orders for issue to vendor.

(i) Follow-up of rejection /replacement.

(j) Follow-up for bills to be received.

(k) Levels of outstanding payable.

3.4. Administration Department

(a) Whether proper records are kept for the expenses incurred on :

— Motor car expenses (petrol, repairs etc.)
— Telephone, Mobile etc.
— Electricity, water bills etc.
— Xerox machines and other office equipments.

(b) System of booking & rate fixation of private taxi for visitors etc.

3.5. HRD Department

(a) Whether 'Nominee' name is filled up in Provident Fund, Accident Claim Insurance etc.

(b) Whether new appointees are included and informed to Insurance Co., immediately for covering in mediclaim, group accident policy etc.?

(c) Staff training policy

— In-house programme & outside programme
— Feedback System

(d) Exit Interview System and its effectiveness.

4. Depots

(a) A list of licenses in force to be obtained.

(b) Whether licenses are renewed promptly?

(c) Depot/CF agent audit.

— Central Warehouse.

(d) Storing medicine in AC environment, if required

(e) Depot stock reconciliations. ❐

Tax Titbits

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Rollbacks—More is expected

A large number of drastic amendments by the Finance Act, 2012, especially provisions relating to General Anti Avoidance Rules (GAAR) had created a scare as regards the future of foreign direct investments, so that the Government had to rollback some of the amendments. The postponement of GAAR by a year, placing the burden of proof for inference of tax avoidance on revenue and the dropping of sub-section (2) of Section 96 providing for treaty override were meant to assuage the fears of prospective investors.

For the same purpose, the draft guidelines on GAAR have been issued by Press Release dated 28th June 2012 requiring opinions, which will be considered while finalising the Rules. It promises safe harbour provision by excepting the application of the rule for income below the specified turnover limit without specifying the amount. Probably it may well be Rs.5 crores limit as for transfer pricing rules—a limit considered too low. Draft rules gives an assurance that where there is already a Specific Anti Avoidance Rule (SAAR), which tackles avoidance by the existing provisions as in transfer pricing rules, there would be no need for application of GAAR.

Draft Rules clarify that there is no need for apprehension that the expression "connected person" will rope in persons remotely connected and proceeds to define "connected persons" to be either an associate enterprise within the meaning of Section 92A or relative as defined under Sections 40A(2) and 56 of the Income-tax Act, 1961.

A further assurance is that, where the arrangement is only partly impermissible, it will not be wholly discarded and that the permissible part will be accepted. But then, in an avoidance arrangement, care is bound to be taken to have all the steps to be legal, so that splitting up is not going to be easy.

As regards the apprehensions expressed as to the scope for subjective understanding of expressions in GAAR like "misuse or abuse", "bona fide purpose" and "lack of commercial substance", the draft rules—while conceding that they cannot be precisely defined, seeks to explain them by as many as twentyone examples. Most of the examples indicate that they are easily understood as not falling under GAAR or, even where GAAR is inferred as applicable, they would invite liability under the existing law without having to invoke GAAR—with the result that they are not that useful as they were meant to be. This is conceded by a Departmental Committee presided over by the Finance Secretary (Business Line, 10th July 2012).

The grievance of the investors is not merely with reference to GAAR, but the retrospective amendments to Section 9 by extending the definition of royalty to include payment for licenced software and inferring liability as in matters of capital gains on underlying assets and reorganisation of business, besides providing "look through" provision giving greater scope for ignoring the reality behind a transaction and established law. Retrospectivity—especially in the matter of foreign investments by residents giving power for revisional jurisdiction for sixteen years—causes concern because of the scope for abuse of these powers. There is some evidence of reconsideration to inspire confidence of foreign investors with change of incumbent in Finance Ministry. We have to wait and see.

Corporatisation is tax exempt

The law that the conversion of the firm into company under Part IX of the Companies Act, 1956, does not involve transfer from the firm to such company, so as to attract tax on capital gains was laid down by the Bombay High Court in CIT vs Texspin Engineering and Manufacturing Works (2003) 263 ITR 345 (Bom). The AP High Court in CIT vs S. Koder (1998) 233 ITR 620 (Ker) and CIT vs Hansa Footwear (2012) 344 ITR 30 (AP) have now taken the same view with yet no confirmation of departmental acceptance to this fair inference. However, there is also an exception under Section 47(xiii) granting exemption, subject to the requirement of 50% identity of interest in firm continuing for the company for next five years, besides the transfer being settled only by issue of shares and not by cash. Where this condition is satisfied, there would be an alternate protection for the taxpayer.

What are the illegal payments to be disallowed?

Explanation to Section 37(1) would disallow illegal payments in computation of taxable income. While the law would tax illegal income as from smuggling, gambling and prostitution, it would not allow illegal expenditure, a situation which has been criticised by N. A. Palkivala on his comment on the decision, CIT vs Piara Singh (1980) 124 ITR 40 (SC), which had made an exception in the case of illegal business, where illegal payment had to be allowed to arrive at the taxable income. But then, the law after Explanation to Section 37(1) is clear, that illegal gratification cannot be allowed as a deduction. But this was extended to kickback payments made to directors of the contractee company in J. K. Panthaki and Co. vs ITO (Investigation) (2012) 344 ITR 329 (Karn). The payment may be considered unethical, but it cannot be treated as illegal, so that this decision would need review. Since Piara Singh's case (supra) was decided prior to Explanation—making the disallowance of illegal expenditure statutory—this decision could be different under the present law.

Set off of loss for purposes of MAT

Minimum Alternate Tax (MAT) is levied on adjusted book profits. One of the adjustments is to allow brought forward business loss or depreciation, whichever is less. Such loss is the loss as per books, which will consist only of losses. But it is required to be split up between cash loss and depreciation loss. Where there are intervening profits, the law does not provide whether the cash loss or depreciation has to be adjusted first against profits for ascertaining the amount to be carried forward for purposes of set off in a future year. The Assessing Officer in a rectification order had set off all the carried for ward business loss against intervening profits, so that what remained was only depreciation loss. Where depreciation loss or cash loss alone are available, it will not be set off in computation of adjusted book profits.

The Tribunal followed First In and First Out Method (FIFO) for set off and in bifurcation as between carried forward loss and depreciation. Jurisdiction for rectification as well as merits of computation was upheld in CIT vs Carbon and Chemicals India Ltd. (2012) 344 ITR 252 (Ker)—a decision which is unsatisfactory as it does not discuss the manner in which such set off was claimed by the assessee or computed by the Assessing Officer, while the law in such matters is nebulous, so that one should imagine that the assessee has the option to claim such set off in a manner favourable to him, since the benefit of doubt in interpretation of law has to go to the assessee. ❐

Testing Positive for Complexity : The new-look "Negative List" based Service Tax

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The interminable wait for the Goods and Services Tax (GST) has made the Union Government cut the Gordian knot in the Service Tax arena. By transforming the Service Tax virtually into its expected *avatar* that would be thought to belong to the GST era, the Central Government has sent out an unmistakable signal to the State Governments represented on the GST Empowered Committee. The message could not have failed to register. A new sense of urgency and greater willingness can be inferred in the ranks of the empowered committee of state ministers who now, for example, accept that Petro goods can be brought under the GST. The service tax changes appear to have done the trick. The new- look Service Tax based on the so-called Negative List is officially projected to yield an additional 34,000 crores of rupees in Revenue and by all accounts the New Service Tax Levies could come within sniffing distance of as much as Rs.1,50,000 crores, representing an additional Revenue of Rs.60,000 crores over last year. This is of course just a beginning of the full-blooded Service Tax. With anticipated stricter enforcement and lesser corruption in the Tax Administration, coupled with hopes for economic revival in the country, the tax could go up to Rs.300,000 crores of rupees per annum in the next few years. A lion's share of this largesse would accrue to the Union Government. The States would lose out on the burgeoning Service Tax revenues unless they cooperated with the Union Government in bringing about a well-agreed and Industry-supported Goods and Services Tax. The deep changes in the Service Tax Law thus serve a two-fold purpose. On the one hand, the Central Government will have a little larger fiscal room to take care of its manifold expenditures in the worsening economic gloom, and on the other, it holds out the Service Tax carrot to the ever-hungry States to come on board as fast as they can.

Whatever the political and fiscal intentions of the Union Government behind the introduction of the far-reaching changes in Service Tax Law ahead of the curve, what cannot be gainsaid is that the changes are fairly complex and are giving a tough time to the tax payers and tax pundits alike. The new-look service tax is founded upon the premise that all Services are taxable unless they are excluded from the ambit of taxation by being mentioned in the Negative List or specifically exempted by way of Exemption Notification. What is also disturbingly novel is the fact that the Taxable Service is rather loosely defined as 'any activity done by one person for another for consideration'. The explanatory circulars of the Department have fuelled the uncertainty claiming that the activities would comprise 'any act or deed or work or performance including even an act of forbearance'. It remains to be seen as to how far the Service Tax can go when disputes are tested in the Courts of Law. Even then there is the retrospective amending power of the Parliament. In this Article, we shall study and examine certain controversial provisions in the Service Tax changes as brought about by the Finance Act, 2012.

Back door entry of Service Tax on a deemed sale

It would be worthwhile to remember that clause 44 of section 65B of the Finance Act, 1994 excludes a **"deemed sale"** as covered in the Indian Constitution by virtue of clause (29A) of Article 366. The definition is extracted as follows :

'Service' means any activity carried out by a person for another for consideration, and includes a declared service, but shall not include —

(c) an activity which constitutes merely,

(i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or

(ii) such transfer, delivery or supply of any goods which is deemed to be a sale within the meaning of clause (29A) of article 366 of the Constitution; or

(iii) a transaction in money or actionable claim;

Thus the New Service Tax Law excludes deemed sales as defined in the Constitution. One of the categories in the Constitution as regards 'deemed sale' is the transfer of right to use goods, including delivery of goods on hire purchase or any system of payment by instalments. Despite the express provisions in section 65B, vide clause (44), there are provisions which are styled as 'declared services' in section 66E of the Finance Act covering a whole range of activities that obviously conflict with the provisions in section 65B (44). The impugnable categories include the following :

(c) temporary transfer or permitting the use or employment of any intellectual property right;

(f) transfer of goods by way of hiring, leasing, licensing or in any such manner without transfer of right to use such goods;

(g) activities in relation to delivery of goods on hire purchase or any system of payment by instalments.

While some of these provisions in substantial measure did exist prior to 1st July 2012, the previous Service Tax Law never made a claim that the taxable services excluded 'deemed sales' as defined in the Constitution. That claim is now manifestly made in section 65B and conflicted with vide section 65E. For example, it is highly scandalous that both Information Technology Software and Software Licenses are treated as taxable categories in every indirect tax system that is levied in this country—VAT, Service Tax, Central Sales Tax, Central Excise Duty and Customs Duty. The State VAT Laws levy tax on software on any media including software intangibly ensconced in the memory of a computer system. The VAT Law taxes software licenses also, on the ground that the consideration for the purchase of licenses is in reality consideration for the supply of software underlying the transaction. To compound matters, the Central Excise and Customs Tariffs cover as well as differentially classify the computer software and the software licenses under Tariff Chapter headings 8523 and 4907 respectively. Now the Service Tax changes accentuate the confusion by declaring that the temporary transfer or use of any intellectual property right that would include software and software licenses are taxable services. It is unfortunate that software and software licenses continue to be fodder for the Tax Departments both at the Centre and in the States. Similarly, conjuring up a novel class of services as 'transfer of goods by way of hiring, leasing, etc., without transfer of right to use such goods' appears to be an oxymoron in terms and a deceptive circumvention of the 'deemed sale' provision in the Indian Constitution.

Trading of Goods vs Exclusion of value of Goods under the Erstwhile Notification 12/2003

The quintessential feature of the Service Tax that it is first and foremost a tax on service and cannot, even indirectly, constitute a tax on the sale of goods was enshrined in the exemption accorded to the value of goods transferred along with the provision of service as per the above-said Notification that prevailed till 30th June 2012. The Department has claimed that the abolition of the above fundamental notification does not create any disability in view of the Negative List keeping out the trading of goods. However, mere trading of goods is totally different from composite transactions involving transfer of goods and providing of services. In such transactions, the supply of all or most or part of the goods may be made by buyers and the value may not be indicated separately even though the supply of goods and their transfer thereof may be indicated in the invoice. Such circumstances were amply relieved of the tax burden in terms of Notification 12/2003. Such a facility cannot be read into the exclusion accorded to a mere trading of goods. The Loss of Notification 12/2003 is therefore a big dampener in cases of composite transactions involving a fused supply of goods and services.

Betting, Gambling and Lottery

There seems no justification for tax exclusion accorded to betting, gambling and lottery. While Service Tax is collected on many activities that cry out for preferential tax treatment, it does not do well to the moral image of the Government to exempt betting, gambling and lottery from the scope of Service Tax. These 'sin' activities are essentially services and do not merit laying off the Service Tax.

Admission to Entertainment Events or access to Amusement Facilities vs the New Definition of Renting

While the **Negative List** excludes the activity of admission to Entertainment Events or access to Amusement Facilities, the definition of the taxable activity of renting of immovable property by its overarching definition and scope appears to be in conflict with the same. The definition of renting is new-fangled and goes like this :

(41) ''renting'' means allowing, permitting or **granting access, entry, occupation, use or any such facility, wholly or partly, in an immovable property,**

with or without the transfer of possession or control of the said immovable property and includes letting, leasing, licensing or other **similar arrangements in** respect of immovable property;

Thus the definition of renting partakes of an extended meaning in the New Service Tax Law by covering even grant of access, entry or use of any facility thereof, including any arrangement similar to letting or leasing. These provisions are in direct conflict with the exemption for **access** to Amusement Facilities and **admission** to Entertainment Events.

Taxability of Transactions amongst members of a Mutuality

The New Look Service Tax covers vide sub-clause (vii), clause (37) section 65B of the Finance Act, 1994, an Association of Persons or Body of Individuals, whether incorporated or not. In many cases involving entities such as Clubs, the higher juridiciary including the Supreme Court of India has held that a Mutuality of Members cannot be subjected to taxation under Sales Tax Law or under Service Tax Law in regard to transactions carried out between themselves. This settled Judicial View has not been recognized in the New Look Provisions of the Finance Act, 1994 and is bound to lead to litigation.

Activity of Chit Funds

Ever since the introduction of Service Tax in 1994, Chit Funds have been kept at arm's length from the embrace of the Service Tax. When an attempt was made to tax the business chits, the Department issued a Circular in the year 2002 accepting the view of the Reserve Bank India that the Chit Funds are essentially mobilizing cash, causing its movement and distributing it among a mutuality of members ruled that they were outside the tax purview in terms of the then existing Banking and Financial Services. However, the Department tried to revive the tax by issuing a Notification in 2006 gratuitously exempting 70% of the consideration in the chit transaction from the ambit of Service Tax. This back-door entry of Service Tax was disfavored by the Andhra Pradesh High Court, which actually opined that if the Government wanted to tax business chits, they ought to do so openly and not otherwise by strained interpretation. The claims of the Chit Fund Industry to tax exclusion are not only founded on the non-taxability of Mutuality and the fact of the chit transactions being a clear transaction in money. The claim also found support from a new exemption given to the Financial Services Industry vide clause (n) of section 66D comprising the Negative List of Services in the Finance Act, 1994. The provision excludes Services by way of extending deposits, loans or advances in so far as the consideration is represented by way of 'interest' or ''discount''. The Chit Fund Act, 1982 actually characterizes the consideration earned by the mutuality of the common Chit fund as chit discount. Therefore it appears that the reference in the Education Guide relating to the taxability of business chits is not borne out by the statutory provisions in the Act that militate against taxing the Chit Funds.

Vagueness of Non-Specific Mention of Taxable values or Taxable Persons

In several provisions of the New Look Service Tax Law, there are no Guidelines or provisions relating to the determination of the taxable value or even the taxable persons, apart from general provisions. For example, a multi-member arbitral Tribunal has been brought under Service Tax category in so far as its services are rendered to a business entity. However, the statutory provisions do not contain any guideline as to how and in whose name such arbitral Tribunals are to be registered for tax payment and how the consideration for the purpose of tax should be arrived at. The utter vagueness of the provisions in the law in this regard is glossed over and kept in the back burner by introducing a reverse tax in the hands of the recipient of such arbitration services. The same vagueness and confusion could be seen in the attempt in taxing Chit Transactions without specifying who are the taxable persons and without mentioning what is the taxable value.

Conclusion

The changes brought out in the Service Tax Law by virtue of the Finance Act, 2012 are indeed far-reaching and complex. It is virtually a Central GST on the service sector of the country. It would take a considerable effort and time for all the stakeholders to get a feel of the new tax and to develop their exposure. The tax payers would be happy and thankful if the Government did well to adopt a sympathetic and helpful attitude towards tax payers and their problems instead of being confined to revenue gathering and ultra strict enforcement of the complex provisions, which eludes clarity and understanding even among experts. ❐

Basel III Framework : A Road to Resilient Banking System

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Introduction

A strong and resilient banking system is the basis for sustainable economic growth, as banks are at the centre of the credit intermediation process between savers and investors. Moreover, banks provide critical services to consumers, small and medium-sized enterprises, large corporate firms and governments who rely on them to conduct their daily business, both at a domestic and international level (Bank for International Settlements, 2011). The international regulatory authorities have taken several measures over the period of time in the form of Basel I and Basel II to make the global banking system sound and stable.

But the financial crisis that began in 2007 in U.S. and had spillover effect infecting many countries of the world revealed the weakness in global regulatory framework (Basel II) in maintaining the soundness of the banking system. There are many reasons responsible for the occurrence of crisis and the most significant ones are inadequate quantity and quality of capital, insufficient liquidity buffers, excessively leveraged financial institutions, inadequate coverage of certain risks, absence of a regulatory framework to address systemic risks in the financial system, poorly understood financial products, vicious incentive structure in securitization process and inadequate regulation and supervision (Sinha, 2011).

To plug the loopholes in capital rules and address the market failures revealed by the crisis, the Basel Committee has introduced a number of fundamental reforms in the form of Basel 'III' to make the banking sector more resilient. Basel III has been designed to address all the shortcomings that have surfaced in the wake of the crisis including the very important issue of systemic risk.

On 16 December 2010, the Basel Committee on Banking Supervision (Basel Committee) had published the Basel III rules with an objective to reducing the probability and severity of future crisis. 'Learning the lessons from the crisis, Basel III aims to improve the shock absorbing capacity of each and every individual bank as the first order of defense and in the worst case scenario, if it is inevitable that one or few banks have to fail, Basel III has measures to ensure that the banking system as a whole does not crumble and its spill-over impact on the real economy is minimized' (Mahapatra, 2012).

Nout Wellink, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, described the Basel III Framework as ''a landmark achievement that will help to protect financial stability and promote sustainable economic growth. The higher levels of capital, combined with a global liquidity framework, will significantly reduce the probability and severity of banking crises in the future'' (Bank for International Settlements, 2010). These reforms are intended to reinforce the bank-level or micro prudential regulation, which will help to raise the resilience of individual banking institutions in the periods of stress. Basel III also covers the macro prudential aspect, addressing system-wide risks that can build up across the banking sector as well as the procyclical amplification of these risks over time. Clearly these micro and macro prudential approaches to supervision are interrelated, as greater resilience at the individual bank level reduces the risk of system-wide shocks (Bank for International Settlements, 2011).

Source : Chabanel, 2011

Figure 1

Basel III is typically an enhancement to Basel II (shown in Figure I) as it is built on three pillars of Basel II framework. Basel III has tinkered the various existing requirements (risk weighted assets, capital structure etc.) and added a host of new ones. Basel III elevates both the quality and quantity of the regulatory capital base and augments the risk coverage of the capital framework along with more strengthened market discipline.

Key features of Basel III

Basel III incorporates several new measures on the existing Basel II framework. New elements in the form of liquidity requirements, leverage ratio, procyclicality measures have been introduced and it also involves enhancement of minimum capital requirements and risk coverage to make the financial system stronger. Basel III combines both micro and macro-prudential reforms to address both institution and system level risks. So, the focus is on financial stability of the system as a whole along with micro regulation of individual bank. These quantitative capital requirements will be reinforced by more stringent qualitative capital standards. The key features of Basel III have been summarized in Table 1 :

Table 1 : Key features of Basel III Framework

Nature of Regulation	Features	Key Aspects
Micro-prudential	Global Liquidity Standard	■ Liquidity Coverage Ratio (LCR) ■ Net Stable Funding Ratio (NSFR) ■ Set of Common monitoring metrics
Micro-prudential	Enhanced Minimum Capital Requirements	■ Increasing the quantity and enhancing the quality and transparency of capital base ■ Tier I capital must consist predominantly of common equity and retained earnings ■ Common Equity Tier I must be at least 4.5% of risk-weighted assets ■ Tier I Capital must be at least 6.0% of risk-weighted assets ■ Tier III capital instruments are eliminated
Micro-prudential	Enhanced Risk Coverage	■ Higher Capital requirements for trading and securitization activities ■ Enhancements to Pillar 2's supervisory review process and Pillar 3's market discipline, particularly for trading and securitization activities ■ Capital requirement for certain counterparty credit risk exposures based on stressed inputs ■ Incorporation of IOSCO's Code of Conduct Fundamentals for Credit Rating Agencies to mitigate the reliance on external ratings of the Basel II framework ■ Capital charge for potential mark-to-market losses ■ Additional standards to strengthen collateral risk management practices

(contd.)

(contd.)

Nature of Regulation	Features	Key Aspects
Macro-prudential	Leverage Ratio	■ A non-risk-weighted minimum leverage ratio of Tier I Capital to Total exposure is introduced as a supplementary measure to enhance the risk absorbency of individual banks and address the concern about leverage in the financial system
Macro-prudential	Addressing Procyclicality	■ Forward looking provisions prescribed ■ Introduction of Capital Conservation buffer ■ Introduction of Countercyclical buffer ■ Addressing systematic risks and interconnections

Source : Compiled from "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems", BIS, 2011

The key elements or features of Basel III are briefly discussed :

Micro-prudential Regulations

The Basel III framework incorporates various reforms to deal with bank-level or institution-level risks and changes :

● **Global liquidity standard :** Many financial institutions experienced liquidity difficulties during 2007 financial crisis, despite meeting their regulatory capital requirements. Moreover, there were no internationally agreed and harmonized liquidity standards. The financial crisis highlighted the importance of liquidity risk and now it is viewed as a risk as grave to a financial institution as credit, market, and operational risk (Gassmann et al. 2011). So, Basel III introduces two new liquidity ratios to manage the pressure on liquidity in a stress scenario :

i. Liquidity Coverage Ratio : Liquidity Coverage Ratio (LCR) is introduced to promote resilience to short term liquidity disruptions over a 30-day horizon. At a minimum, the stock of liquid assets should enable the bank to survive until 30th day of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken :

$$\text{Liquidity Coverage Ratio} = \frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over the next 30 days}} * 100 > 100\%$$

ii. Net Stable Funding Ratio : Net Stable Funding Ratio (NSFR) intends to strengthen the banks' resilience to long term liquidity crisis. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles (Reserve Bank of India, 2012).

$$\text{Net Stable Funding Ratio} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}} * 100 > 100\%$$

Such a stringent approach to liquidity risk supervision is indeed rather new in the regulatory framework (Barua et al, 2010). Monitoring metrics are also introduced in relation to specific areas like contractual maturity mismatches and concentration of funding.

- ***Enhanced Minimum Capital Requirements:*** Definition of capital has been redefined under the new framework. Basel III framework emphasizes that the predominant form of Tier 1 capital must comprise of common shares and retained earnings and Common Equity Tier 1 component has been raised from 2% to 4.5%. Deductions from capital and prudential filters have been harmonized internationally and Tier 3 capital instruments are eliminated. Minimum Tier 1 capital as a percentage of risk-weighted assets is raised from 4% to 6%—thereby improving the overall level of high quality capital in banks.

- ***Enhanced risk Coverage*** **:** One of the major focuses of the Basel III is to strengthen the risk coverage in response to shortcomings of the Basel II accord. So, Basel III framework covered various strands of risks not addressed or partially addressed under Basel II. It stipulated higher Capital requirements for trading and securitization activities and introduced new risk weights to better capture risks in trading portfolios. Moreover, it also stipulated enhanced guidelines on Pillar 2's supervisory review process and Pillar 3's market discipline, particularly for trading and securitization activities. Under new framework, banks must determine their capital requirement for counterparty credit risk using stressed inputs. Further, banks will be subject to a capital charge for potential mark-to-market losses (ie credit valuation adjustment – CVA-risk) associated with deterioration in the creditworthiness of counterparty.

The Basel Committee also assessed and introduced number of measures to mitigate the reliance on external ratings of the Basel II framework. The measures include requirements for banks to perform their own internal assessments of externally rated securitization exposures, the elimination of certain ''cliff effects'' associated with credit risk mitigation practices, and the incorporation of key elements of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies into the Committee's eligibility criteria for the use of external ratings in the capital framework (Bank for International Settlements, 2011). Thus, the Basel III framework will have enhanced risk coverage.

Macro-prudential Regulations

The Basel Committee has incorporated certain macro-prudential regulations under the Basel III framework to address the concerns about financial system as a whole that will 'lean against the wind' to take care of issues relating to the systematic risks (Mahapatra, 2012).

The macro-prudential regulations covered under Basel III are :

- ***Leverage ratio*** **:** The Basel Committee has introduced a non-risk-weighted minimum leverage ratio of Tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items) to constrain leverage in the banking sector, thus helping to mitigate the risk of the destabilizing deleveraging processes which can damage the financial system and the economy (Bank for International Settlements, 2011). This measure will affect all business areas that are perceived as low-risk but that inflate the balance sheet (for example, the repo business). During a test period from 2011 to 2017, the ratio will be set at 3 percent. Then, after a final review, a new ratio will be set for 2018 onward (Gassman et al, 2011).

- ***Addressing Procyclicality*** **:** One of the most destabilizing elements of the crisis has been the procyclical amplification of financial shocks throughout the banking system, financial markets and the broader economy (Bank for International Settlements, 2011). The Basel III framework also contains the measures like capital conservation and countercyclical capital buffer to reduce the cyclical effects of Basel II. The primary objective to introduce such measures is to ensure that banking sector serves as a shock absorber instead of transmitter of risks to financial economy.

i. Capital conservation buffer **:** The minimum amount of capital conservation buffer of 2.5% of common equity Tier 1 will be maintained thus, bringing the total common equity capital requirements to 7%. In times of financial stress, banks can draw on the buffer provided that, if they do so, earnings distributions such as bonuses and dividends are limited and when buffer is drawn banks must find ways to rebuild it.

ii. Countercyclical capital buffer **:** The counter-cyclical capital buffer is aimed at ensuring that banking sector capital requirements take account of the macro-financial environment in which banks operate. To address the procyclicality additional countercyclical buffer—that could range from 0% to 2.5% of risk—weighted assets are to be built to protect the banking sector from system-wide risks arising out of excessive credit growth. Furthermore, banks will be subjected to the restrictions on distributions also if the capital level (capital conservation buffer plus countercyclical buffer) falls below the required levels during the periods when the countercyclical capital buffer is in force (Mahapatra, 2012).

iii. Additional requirements for systemically important financial institutions **:** Basel Committee will group G-SIB (Globally Systematic Important Banks) with assets of US $ 100 bn or more into different categories of systematic importance based on the score produced by the indicator based measurement approach. Systemically important financial institutions could be subject to additional requirements and tighter supervision based on the risks their failure poses to financial system.

All the elements incorporated under Basel III framework are intended to make banks more resilient. These measures are considered important to strengthen the regulation of banking sector. Mr. Nout Wellink, Chairman of the Basel Committee and President of the Netherlands Bank, stated that ''these measures will result over time in higher capital and liquidity requirements and less leverage in the banking system, less procyclicality, greater banking sector resilience to stress and strong incentives to ensure that compensation practices are properly aligned with long-term performance and prudent risk taking" (Bank for International Settlements, 2009).

Basel III framework Implementation Timeline

Basel III framework was fully endorsed by Group of Governors and Heads of Supervision of member countries at the September 12, 2010 meeting of the central bank governors. Table 2 reproduced 'Annex 4' of the document which summarizes the implementation schedule of the framework. The phase in period for implementation of guidelines will begin from January 1, 2013 while its full implementation is expected to be achieved till 2019. On January 1, 2013 minimum common equity ratio will be raised from current 2.5% to 3.5% and Total Tier I up to 4.5%. The capital conservation buffer will be phased in between January 1, 2016 and the end of 2018. The market expects banks to comply with Basel III before the regulatory deadline pushing them to faster implementation (Bank for International Settlements, 2010).

Table 2 : IMPLEMENTATION SCHEDULE OF BASEL III FRAMEWORK

Phase-in-arrangements

(shading indicates transition periods—all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013–1 Jan 2017 Discolosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			35%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier I Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier I capital or Tier II capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio	Observation period begins							Introduce minimum standard	

Source : Adapted from "Basel III: A global regulatory framework for more resilient banks and banking systems", BIS, 2011

Basel III framework in Indian Banking Scenario

In order to make the Indian financial system safer from the impact of any potential global financial crisis, the Reserve Bank of India (RBI) is fully committed to the objective of Basel III framework and it has also released draft regulations of Basel III for Indian banking sector on 30 December 2011 and 21 February 2012, respectively. RBI has adopted a bit conservative approach in India as compared to its international counterparts, by setting more demanding schedule for Basel-III. Implementation of Basel III in India is proposed to begin on January 1, 2013 and it is proposed to be fully implemented by March 31, 2017, as compared to January 1, 2019 deadline proposed by the Basel Committee for its implementation around the globe. The minimum regulatory requirement of CRAR in India at present is 9%, higher than the BIS norm of 8% and Indian banks are required to maintain Tier I capital at 6%.

Key Elements of RBI Draft Guidelines on Basel III Framework

- Minimum Tier I capital of 7 per cent of Risk Weighted Assets (RWAs) to be maintained by banks on an ongoing basis.
- Banks have to maintain Common Equity Ratio of at least 5.5 per cent, and a minimum total capital of at least 9 per cent of RWAs on an ongoing basis.
- Additional capital conservation buffer (CCB) in the form of common equity will be build up to 2.5 per cent which is proposed to be achieved by banks till March 2017. Hence, the total capital requirements would be 11.5 per cent of Risk Weighted Assets.
- Instruments which no longer qualify as regulatory capital instruments will be phased-out during the period beginning from January 1, 2013 to March 31, 2022.
- Two minimum global regulatory standards, viz. LCR and NSFR, will become binding from 1 January 2015 and 1 January 2018, respectively.
- For the first time banks will need to maintain a leverage ratio, which will limit their ability to leverage. Banks will be expected to operate at a minimum Tier 1 leverage ratio of 5% between 2013 and 2017 (www.economictimes.com).

The Reserve Bank has projected stricter norms for banks in India as part of a plan to migrate to the Basel III framework to create a healthier and safer banking system. According to the Report published by S&P on RBI's Basel III guidelines, Basel III may have negative affect on the credit growth of a few banks in India. But, if the guidelines are implemented in proper sense it will benefit Indian banks' credit profiles. In the view of International credit rating agency 'Moody', draft guidelines by RBI reflects its policy of ensuring that Indian banks have extra stress absorption capacity if the operating environment worsens.

Implications of Basel III Framework in India

- ***Additional Capital Infusion* :** Indian banking sector will need to mobilize additional capital to comply with the Basel-III norms. While most of private and foreign banks have core capital above 9%, several public sector banks will fall short of this benchmark and public sector banks' dependence on the government, for capital support will increase. RBI Governor D Subbarao, had said that Indian banks will have to incur additional costs to build capital buffers to comply with Basel III rules. On aggregate, banks are comfortably placed in terms of capital adequacy as average Tier 1 capital ratio of Indian banks is around 10% with more than 85% of it comprising of common equity, but a few individual banks may fall short of capital due to implementation of Basel III.

As per estimates of CRISIL (Credit rating agency) Indian banks will need to generate fresh capital up to Rs. 2.7 trillion till March 2017 to meet the Basel III norms (CRISIL, 2012). While the objective of the Basel III norms is to ensure the reduction of loss in adverse times and improve the quality of capital, the primary question for the Indian banking sector (more so for the public sector banks) is the concern of raising the additional capital. The capital raising is expected to be extremely challenging as cost of non-core capital rises due to modifications in qualification criteria for debt and hybrid instruments. According to ICRA (2010) : ''It could be a challenge for Indian banks to find investors with high risk appetite, to subscribe to the capital requirement of Indian banks.''

- ***Data Issues* :** Accurate, reliable and timely availability of data is crucial for proper risk management under the new accord. To provide basis for forecasting and building of models in respect of various activities, a lot of historical data is required. To deliver compliance against Basel III, all banks must now ensure that risk and finance teams have quick and easy access to centralized, clean, and accurate data (Chabanel, 2011). This data must reflect their bank's credit, market, concentration, operational, impairment, and liquidity risk. All banks will also need to calculate the enhanced capital, new liquidity ratios, and new leverage ratios to be in a position to start reporting to local supervisors in the multiple formats that the various national regulators require starting as early as 2013. Furthermore, the data must be carefully defined and managed to ensure that it delivers the correct ratio calculations for capital adequacy, leverage, and liquidity every time (Chabanel, 2011). The primary challenge for India will be to develop the capability to collect accurate and relevant data granularly.

- ***Substantial Impact on Return on Equity*** **:** The general increase in capital requirements and introduction of a leverage limit under Basel III framework is expected to have negative impact on Return on Equity (RoE) in the banking sector. With so much maintenance of additional capital and host of other changes, experts are predicting ROE to fall drastically. A study by McKinsey & Company has suggested that Basel III would reduce Return on Equity (RoE) for the average bank by about 4 percentage points in Europe and about 3 percentage points in the United States (Harle et al).

- ***High Compliance Cost*** **:** The new framework carries some heavy external costs as well as compliance cost. As, despite the possible data efficiencies, gained from reengineering of risk and finance functions, maintenance of necessary data and system infrastructure involves high costs. These measures will be expensive in terms of the new investment in technology and infrastructure needed for compliance, given the new capital and liquidity requirements. Clearly, implementation costs will vary greatly by institution; the cost and effort required depends on each bank's business model and its ambitions to implement state-of-the-art risk and balance-sheet management and monitoring systems.

- ***Liquidity Issues*** **:** Banks in India are required to maintain minimum reserves of high quality liquid assets as a statutory requirement in the form of SLR (Statutory Liquid Ratio) which is set at 24% of net demand and time liabilities. Reserve bank is considering the issue of how much of these reserves can be allowed to be reckoned towards compliance with LCR (Liquidity Coverage Ratio). If these reserves are not reckoned towards the LCR and banks are to meet the entire LCR with additional liquid assets, the proportion of liquid assets in total assets of banks will increase substantially, thereby lowering their income significantly (Subbarao, 2010) .

- ***Macroeconomic Costs*** **:** The various elements of Basel III are associated with some macroeconomic costs. Concerns have been raised as to its impact on economic growth and profitability of banks. With increased equity capital requirement, weighted average cost of capital is likely to increase. This rise in cost of capital would be shifted to borrowers by banks in the form of higher lending rates and, as a consequence, there will be drop in the overall quantum of lending. The Basel Committee's study on the Long-term Economic Impact (LEI) of the stronger capital and liquidity requirements has suggested that the net benefits in terms of the gains from reduced probability of banking crises, and the consequential loss of growth, will remain positive (Mahapartra, 2012).

- ***Sound Risk Architecture*** **:** Basel III is changing the way the banks address the management of risk and finance. Issue of sound risk management structure in banks and financial institutions is central to proper implementation of the new Accord (Chabanel, 2011). Risk of mis-pricing, mis-selling and unfamiliar elements of risk would continue to pose questions even to the savviest banks. While expanding market is a matter of survival, challenge for the banks would be to perform its operations by establishing a sound risk management structure.

Conclusion

New Basel III framework is an opportunity to make the global financial system more secure and stable. The feature that distinguishes Basel III from previous attempts to improve the financial system is its focus on structurally improving the balance sheets of financial institutions. If Basel III is implemented in principle, it will improve the banks' competitiveness in every aspect, but the task of integrating it is challenging.

Basel III requirements expose banks across the globe to major challenges regarding their capital and liquidity requirements as well as their risk management. The prime challenge for affected banks will be to act upon the actions mandated by Basel III to create stronger capital and risk structures. So, there is need to adopt several measures to enhance the ability of banks for its envisaged application. Banks need to consider the Basel III as an opportunity to put their houses in order and adopt world class risk management practices, instead of taking a technical approach towards framework around meeting compliance requirement. For every bank, designing the most cost-effective model for implementing Basel III will be a critical issue.

Banks should develop data systems based on common data inputs to derive market, credit and liquidity risk. There should also be an integrated reporting approach across risk types to give senior managers and investors a consistent view across the enterprise of the impact of different types of risk. The Basel III norms require more risk sensitivity, and, hence, more complex measurement techniques and sound regulatory framework to create a healthier banking system.

Implementing the proposed Basel III norms will strengthen the core banking sector and improve its resilience to systemic shocks in the economy. ❐

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Co-operative Bank Turning to Private : A Case Study on Saraswat Co-operative Bank

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Introduction

Urban Co-operative Banks (UCBs) are an important part of the financial system in India. It is, therefore, necessary that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled, and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalized sections of the society. The scene of urban cooperative banks in the country is a mixed lot with some of them capable of taking on corporate banks while others struggling to be in the business. While cooperative banks like Saraswat and Cosmos with turnovers in the range of Rs 20,000-30,000 crore are everybody's envy, many of UCBs are hot-bed of mismanagement and bad business practices. And while those which are successful could be counted on fingers the list of those in sorry mess runs into hundreds. They are simply not able to make any profitable business.

Objective

Last two decades the Bank has witnessed a steady growth in the business and also taken several Strategic Business Initiatives like undertaking Business Process Reengineering initiative. Besides being the largest Urban Co-operative Bank in India, Saraswat Bank has now become the largest in Asia.

Here an attempt has been made to highlight the performance of the bank, comparison with other banks and to search possible reasons of success which has caused for the turn from the status of a cooperative towards private bank having wider scope.

About Saraswat Bank

The Bank has a very humble but a very inspiring beginning. On 14th September 1918, ''The Saraswat Co-operative Banking Society'' was founded. J. K. Parulkar became its first Chairman, N. B. Thakur, the first Vice-Chairman, P. N. Warde, the first Secretary and Shivram Gopal Rajadhyaksha, the first Treasurer. The Society was initially set up to help families in distress. Its objective was to provide temporary accommodation to its members in eventualities such as weddings of dependent members of the family, repayment of debt, and expenses of medical treatment etc. The Society was converted into a full-fledged Urban Co-operative Bank in 1933. The Bank has the unique distinction of being a witness to History. The Bank, which was originally founded in 1918, i.e. close on the heels of the Russian Revolution, also witnessed as a Society and as Bank-the First World War, the Second World War, India's Freedom Movement and the glorious chapter of post-independence India.

During the late fifties, the Bank grew from strength to strength. The Bank had established five branches within the city of Mumbai and one each at Pune and Belgaum. In its 50th year, the Bank chose a bee motif to symbolize the Bank's emblem – a fitting and appropriate characteristic of a Bank that believed in hard work, a search for all that is good, a team spirit to achieve its objectives and a selfless service to its members and customers. The Bank has grown in stature, progressed in its social and economic objectives and produced an image of what an ideal bank should be. Resultantly, in 1977-78, the Bank's gross income crossed the Rs. 3.00 crore marks for the first time. In 2008, the Bank launched the Branding Initiative. The purpose of such an exercise was to reconfirm the thrust of the Bank on its core values, which can be summed up as ''Sense of Belonging''. The name of the Bank should always inspire the Sense of Belonging in all its stakeholders and that the Bank continues to fulfill the changing needs and expectations of the customers with unflinching gusto and aplomb.

Different Credit Schemes

Saraswat Bank has introduced a wide range of credit schemes at attractive interest rates, which has become very popular, especially among the middle-class, in view of the easy repayment plans. Bank offers attractive interest rates on deposits and also various add-on features at very market competitive rates. A few are :

Udyogini

Saraswat Bank introduces a scheme for women entrepreneurs of today which takes care of their financial requirements allowing them to concentrate on their business growth. With lot of incentives/

discount being offered and minimum processing charges which are enumerated :

1. Micro Enterprises — Here the finance provided will be up to Rs 2.00 lacs.

2.Small Scale Enterprises — Here the finance provided will be above Rs 2.00 lacs up to Rs. 50.00 lacs.

3. Medium Enterprises — Here the finance provided will be above Rs. 50.00 lacs up to a maximum limit of Rs 100.00 lacs.

The following are/discounts offered to women under the scheme Udyogini :

	Micro Enterprises	SSI Enterprises	Medium Enterprises
Amount	Up to Rs 2.00 lacs	Above Rs 2.00 lacs up to Rs. 50.00 lacs	Above Rs 50.00 lacs up to Rs 100.00 lacs
Margin	Nil	10%-15%lower than the Bank's norm	10% - 15% lower than the Bank's norm
ROI	PLR – 0.5%	PLR–0.5%	PLR
Repayment	6 yrs	6 yrs	7 yrs
Security	Hypothecation + Guarantee of (spouse / a family member wherever required)	Hypothecation + 2 Guarantors + Collateral Security (25%)	Hypothecation + 2 Guarantors + Collateral Security (30%)
Processing Fees	Rs. 500/-	Rs. 750/-	0.1% of finance limit

Micro Finance : Self Help Groups (Bachat Ghat)

Since inception the cause of the Small Man lay at the core of the Bank's heart. The Bank has grown manifold but its basic values have remained the same. Saraswat Bank has, therefore, launched a scheme for self help groups so as to help them raise the income levels and improve living standards of their members'. The Bank aims at teaching the members of these groups to save and to borrow responsibly.

The Bank caters to the self help groups who are involved in the following activities :

1. Selling fruits, vegetables, milk, fish, etc.
2. Making of brooms, basket weavers, and other bamboo products, etc.
3. Any other activities viz. plumbing, hairdressing, electrician, including flowers/vegetable growers, spices and papad making, etc.

Maximum amt of Loan	Rs 2.00 lakhs
Interest Rate	PLR–1%
Security	Guarantee of Group Members
Repayment Period	Not more than 36 months
Processing Fees	Reasonable
Shareholding	Nominal Membership

Small & Medium Enterprises (SMEs)

For a business on the growth phase with a wide range of opportunities to explore, timely availability of credit is essential to scale new heights. Saraswat Bank always enables SME sectors' business needs.

Performance

In 1988 the bank was conferred "Scheduled" status by Reserve Bank of India. The Bank is the first cooperative bank to provide Merchant Banking services. The Bank got a permanent license to deal in foreign exchange in 1978. Presently the Bank is having correspondent relationship in 45 countries covering 9 currencies with over 125 banks.

In 1992, the Bank completed 75 years. Platinum Jubilee celebrations were inaugurated on 14th September 1992. The Bank also crossed the business level of Rs 700 crores. The beginning of the 21st century has been a giant leap forward for the Bank. The Bank chose a path of organic/inorganic growth and its pace of growth accelerated. Bank's total business which was around Rs. 4,000 crore in 2,000 almost tripled to Rs. 15.295 crore in 2007.

Saraswat Bank has now 226 fully computerized branches, 15 Zonal Offices and departments located across 6 States—Maharashtra, Goa, Gujarat, Madhya Pradesh, Karnataka, and Delhi. It has merged seven coop Banks and is consciously nurturing them. Bank tied up with VISA international for issuance of Debit Card. The Bank is providing 24- hour service through ATM at 147 locations. As on 31st March 2012 Bank business had surpassed Rs. 33,000 crores. Bank has retained its coveted position as ZERO NET NPA Bank for the eighth successive year.

Table : Few financial indicators of the Saraswat bank for the last 5 years :

Year	Deposit (Rs in Cr)	Loans & Advances (Rs. in cr)	Credit Deposit Ratio	Invest ment in (cr)	Gross NPA	Net Prorit (Rs in crore)
2006-07	89,24.94	6,370.46	71%	2,609.90	5.32%	155.18
2007-08	11,430.82(28%)	7,448.31(17%)	65%	4,350.06	4.78%	202.26
2008-09	12,918.85(13%)	8,110.41(9%)	62%	4,791.51	4.5%	241.29
2009-10	14266.73(10%)	9,250.35(14%)	65%	5,321.39	3.92%	139.16
2010-11	15,800(10%)	11,511.99(24%)	73%	5,253.77	3.25%	213.57

Note : Figures in parenthesis indicate yearly growth Source : Saraswat Bank

The yearly average growth of deposit is 15% and that of Loans and Advances 16%.

In order to see the net profit of Saraswat Bank in proper perspective, a comparative chart giving profits and total business of some Private Banks as on 31st March 2008 are highlighted :

Table : Comparison on Total Business and Net Profit after Tax as on 31.03.2008

Name of the bank	Total Business	Net Profit after Tax (in cr)
Dhanalakshmi Bank Ltd.	5,772.15	28.46
Catholic Syrian Bank Ltd.	10,067.00	36.56
Bank of Rajasthan Ltd.	21,000.00	115.20
South Indian Bank Ltd.	25,910.00	151.62
ING Vysya Bank Ltd.	35,148.00	156.93
Saraswat Co-operative Bank Ltd.	18,879.13	202.26

Source : RBI website

Return on average assets—which is a testimony to insightful and efficient deployment of funds—increased from 1.67% in F.Y. 2007 to 1.71% as of 31st March 2008. This is considered to be very satisfactory and is well above the industry performance. It may be noted that the return on assets is well above the returns earned by all the leading private and public sector banks as on 31st March 2008 as shown :

Table : Comparative Return on Average Assets on 31.03.2008

Name of the Bank	Return on Average Assets
Yes Bank	1.42
Corporation Bank	1.38
HDFC	1.30
PNB	1.15
BOI	1.22
ICICI	1.12
BOB	0.89
SBI	1.01
Saraswat Co-operative	1.71

If we compare with SBI in certain parameters like Capital Adequacy Ratio or CRAR (which is the indicator of risk absorbing capacity) and Return on Average Asset, the findings are depicted through following table :

Table : Comparison with SBI

Year	Capital Adequacy or CRAR (%)		Return on Average Asset (%)	
	SBI	Saraswat	SBI	Saraswat
2006-07	12	11.37	0.84	1.67
2007-08	14	10.85	1.01	1.71
2008-09	13	10.92	1.04	1.46
2009-10	12	14.63	0.88	0.74
2010-11	10.69	12.74	0.71	1.16

Findings

The possible causes for the success story of the Saraswat Co-operative as well as the reasons for applying to RBI for getting the status of Private Bank are :

(i) The bank always focused on Customer Centric Banking i,e., the policy of the bank is related and inclined towards the customer.

(ii) Higher credit deposit ratio than the RBI norms of 66% but with proper monitoring and Recovery schedule.

(iii) Loan appraisal at the pre and post sanction stage to minimize Gross NPA.

(iv) Leveraged on technology to offer many ultramodem technology enabled products like SMS banking, Debit card in tie up with VISA, net banking.

(v) Core banking among all the branches of the bank.

(vi)Provided employment to kith and kin of individuals who have suffered or gave up their lives for saving the honor and integrity of the country.

(vii) The Bank also provides different services like Merchant Banking, Foreign Exchange etc.

(viii) Competitive net profit than quite a few private banks over the years.

(ix) Well-trained courteous staffs and employees.

(x) Finally, highly qualified, dedicated and vastly experienced Board of Directors has lead to proper Corporate governance.

Conclusion

"Service to the Common Man" has been the motto of Saraswat Bank for the last 91 years. The Bank, in spite of its growth in size, has been able to offer to the customers the dual advantage of "Ability of Big Banks and Agility of Small Banks". Saraswat Bank attributes this success to its undying spirit to serve the common man and to the sharpening of its competitive edge by constantly upgrading technology to match international standards. The Bank is fully computerized and offers convenient working hours.

In 2011, the Bank was granted permission for All India Area of Operation by Reserve Bank of India. The bank has applied to RBI for getting a status of private bank and has an ambitious business expansion plan in place to have a presence in all major cities of the country, reach a business level of Rs 50,000 crores by 2016 and Rs 100,000 crores by 2018. ❐

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CMAs Role on Analysis of FIDP in Indian Commercial Banks

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Introduction

Inclusion (I) : The flavour of the quinquennium is inclusion. Inclusion is nourishing and sustainable connecting thread among dispersed third world to tame inane embed poverty among vulnerable. It supports and promotes a pro-culture of collaboration and inclusiveness in an agile economic environment. Inclusion inculcates one culture that runs throughout the country that embodies or binds nearly 122 crore (as per 2011 census) of people in a single umbrella. Inclusion is the sum total of FI, Tourism Inclusion (TI), Institutional Inclusion (II), Insurance inclusion (IIS) and Agricultural inclusion (AI).

State of Inclusion

The idea of delivering money to the poor is not lost on the government. But it does not like the idea of giving the money unconditionally. It wants the poor to repay the money. They would not be able to repay it if they just blew it up for consumption. So, it wants the loans it gives to be used for ''productive'' purposes—that is, in some business that yields a return.

Sad State of Inclusion

In India have 4,20,000 villages, of which 15 crore rural families and 30 crore income earners; the number rural bank account was 8 crore. In spite of 107 years long struggle starting from 1904 cooperative movement, our country have 39.73 crore population living below poverty line, 29.57 crore only outreached Public Distribution System (PSD) system, 10 percent of population covers under live insurance, 0.60 percent of population included under non-life insurance programme. Another state if inclusion in 1989 he amount of loans are waived out from farmers loan, 1991 also same thing, 2009 also happened a miracle of Rs.60, 000 crore farmers loan were waived out to make populist.

Meaning of Financial Inclusion

Financial inclusion is a continuous and proactive process of bringing people of ''poverty battalion'' into the domain of value added banking services in the form priority sector credit, Kisan Credit Cards, Bio-metric ATMs, RTGS (Real Time Gross Settlement), FLCCC and BCM with low sacrifice or affordable cost in an integrated, inclusive and pro-participative manner to make them bankable and protect from rural giants of informal financial sector of moneylenders and money-laundering process. But after a long struggle of 107 years, starting from the first Co-operative movements in 1904, second great Co-operative movements in 1914-18, the great depression period in 1929-33, RBI Act of 1934, the establishment of IBRD and IMF in June, 1946 with the draft proposal of Bretton Woods conference in June, 1944, the situations are not improved rather it is gray, gloomy, glassic and glimpse. In 1947, Mahatma Gandhi rightly told that India lives in village. So, it is our first task is to go there, extend yours hands and work hard for the rural for revitalization and revival but not palliative efforts.

Meaning of Disclosure

Disclosure refers to the exhibition of items of inclusiveness to the stakeholders. It means disclosure of items of annual reports, which performs inclusiveness. The process of exposition of items content in the annual report to satisfy the requirements of vulnerable is called disclosure.

Meaning of Financial Inclusion Disclosure Practice (FIDP)

Financial Inclusion Disclosure refers to the exhibition of items financial inclusion in the Annual Reports on Y O Y basis. It represents the disclosure of some items of financial inclusion performance of the banks through identifiable medium, which can be easily disseminated, to the users.

Meaning of Financial Inclusion Disclosure Performance (FIDP):Branchless banking (BLBs) and rural initiatives (RI) of unbanked, under-banked, low-income groups and rural stake to bring into banking access,FLCCC (financial literacy and customer councelling centers) campaigning and to widenning the banking coverage to an inclusive manner.Financial inclusion is the availability of banking services at an affordable cost to the disadvantaged and low-income groups. In india, the basic concept of financial inclusion is having a savings account or current account with any bank. But in reality it includes CASA, No Frills, loans, BLBs,insurance services, SMEs finance, micro-insurance, TPP transactions, RTGS, ATM service, Biometric ATM services, Mobile banking, E-commerce, M-commerce, BC models, CFSLs (colleteral free-small loans) and much more.

Importance of Financial Inclusion Disclosure Performance (FIDP)

The philosophy of FIP is to growing bigger ang getting closer.Financial inclusion is aimed at delivery of Banking and financial services with value added form at an affordable costs to the un-banked sections of disadvantaged and low income segments of the society so as to unlock their savings and investment potential. The reasons for ''financial exclusion'' may vary from country to country thougth it not disputed by any of that ''financial inclusion'' is the only solution for lifting the financial conditions and standards of living of the poor, low-income groups and downtrodden among 122 (as per 2011 census) crores only 34% having access to bank in india with 50th rank in respect to reach of banking service and FLCCC campaign in the world out of 100 countries. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the cluches of local money lenders. As a first step towards this, most of the banks have come forward with genaral purpose credit cards and artisan credit cards which offer colleteral free small loans. The RBI has simplified the KYC norms for offering and openning ''No Frills'' This model will help rural stake and urban poor to open CASA without any identy proof and address proof.

Explorative Importance of Financial Inclusion Performance (FIP)

The Philosophy of FIIs is to growing bigger and getting closer. Financial inclusion is aimed at delivery of banking and financial services with value added form at affordable costs to the un-banked sections of disadvantaged and low-income segments of the society so as to unlock their savings and investment pestilential. The reasons for financial exclusion any vary from country to country though it not disputed by any one of that financial inclusion is the only solution for lifting the financial conditions and standards of living of the poor, low income groups and downtrodden among 122 crore only 34 percent having access to bank in India with 50th rank in outreach and FLCCC campaign in the world out of 100 countries.

Significance of Financial Inclusion Disclosure Performance (FIDP)

With respect to Banking services and sectors, as the banking services are in the nature of public good, being service industry, it is only fair that the government provides unrestricted services and access of all banking facilities to the entire population without any discrimination. Financial inclusion has now become a buzzword for the entire gamut of banking sectors either co-operative sectors or Self-help group consisting of micro-finance institutions. No doubt the banking network with value added service of banking products has been expanding rapidly over the past few years in India but there are some difficulties in bringing the entire over 6 lakhs villages under the single umbrella of banking coverage. ''Financial inclusion'' is integral to inclusive growth process and sustainable development of any country. It is also essential that the ''Financial inclusion'' models stimulates and boost the entire banking service with BC model that banks come up to the close of the rural people having 60% of the 122 crore of population based on agricultural linkages directly should be replicable, viable and women empowerment through SHGs across the country.

Analytical Significance

India's economic momentum is slowing down because of high inflation, monetary tightening and rising interest rates. At the same time, concerns have emerged over the sustainability of the recovery in US and Europe and the rise in the borrowing programme of the Indian government, which could drain funds away from the private credit market. In this backdrop, banking services and sectors, as they are in the nature of public goods, being service industry, it is only fair that the government provides unrestricted services and access of all banking facilities to the entire population without any discrimination. Financial has now become a buzzword and growing concern for the entire gamut of banking sectors either co-operative sectors of self-help group consisting of micro-finance institutions. No doubt the banking network with value added service of banking products have been expanding rapidly over the past few years in India but there are some difficulties in bringing the entire 6 lack villages under the single umbrella of banking coverage. ''Financial inclusion'' is integral to inclusive growth process and sustainable development of any country. It is also essential that the financial inclusion model stimulates and boost the entire banking service with BCM that banks come up to the door-step of the rural people having 60 percent of the 122 crore of population based on agricultural linkages directly should be replicable, viable and women empower able through SHGs across the country.

The Objectives of the study

To evaluate the ''Inclusive Finance performance'' of eight commercial banks specific objective of the study has been aimed at :

1. Extent of Financial Inclusion **:** Analyze the extent of Financial Inclusion Performance of Indian banking sector through Percolation of Rural folk to Inclusive Finance via strategically Technique for procuring, caring and percolating the un-served, under-served and Un-banked rural people.

2. State of Inclusion of Bank services: Examine the different financial inclusion parameters by means of Value added Bank service to the rural stake of un-banked, under-banked and weaker sections.

3. FIP Parameters: Analysis and review of FIP parameters to understand and to know the impact of sustained vectors on financial inclusion performance.

4. Disclosure performance **:** Examine the disclosure performance of Indian commercial banks.

5.Qualitative Techniques **:** The required Qualitative Techniques are used to analyze, test and assess the FIDP parameters to make it more inclusive of rural base through leveraging technological base.

Research Design

1. Methodology **:** In this study only one major research methodology has been adopted, that is exploratory research for analyzing primary and secondary data. A variety of indicators, tools and techniques of financial analysis have been used to analyze the financial inclusion disclosure performance of few commercial Banks. Relevant statistical tools will also be used to assess the financial inclusion performance as required for our analysis.

Research Framework **:** The primary objective of the study is to examine the state of financial inclusion disclosure performance in Indian banking sector. After studying and reviewing the disclosures, statements, standards and annual reports of two commercial banks, an attempt was made to identify five items or variables regarding financial inclusion disclosure performance (Y) of commercial banks are Priority sector credit (X_1), Opening of savings bank account (X_2), Issue of credit cards (X_3), Issue of Kisan gold cards (X4), Loan to SHGs, MFIs and others (X_5)

- Exploratory Research methods are used to analyze primary and secondary data of eight commercial Banks.
- oRelevant Statistical tools have been used to analyze the growth parameters of the Financial Institutions
- A varieties of indicators, tools and techniques of financial analysis have been used to analyze the financial performance of two commercial banks.

Financial Inclusion Disclosure Index (FIDI): After identifying a comprehensive list of financial inclusion disclosure practices, the annual reports of the sample banks were examined. Scoring of the item of information was done on the basis 0 & 2-1 rating scale.

Disclosure of financial inclusion item : Score = 1-2

Non-disclosure of financial inclusion item : Score = 0

After giving weight age to each bank the score was then totaled to find out the net score of the company. A financial inclusion disclosure Index was then prepared with the help of the following formula:

FIDI= (Total Score of individual Bank/ Maximum Score obtainable by Bank)*100.

Table-1 Financial Inclusion Disclosure Index (FIDI). Source: Respective Annual report.

Year	Total Score Obtained	Maximum Possible Score	FIDI
2010-11	7.55	10	75.50%
2009-10	7.25	10	72.50%
2008-09	7.10	10	71.00%
2007-08	6.90	10	69.00%

Need of Study of Financial Inclusion Disclosure Performance

The subject of Financial Inclusion Disclosure performance has become very interesting and challenging due to growth of exclusion and even massive growth of private banking sectors in India. The concepts of traditional method of banking service provision have been radically changed with agile economic condition across the globe and economic meltdown in North America and Europe.

2.Time Frame of Research **:** The study is limited to four years starting from 2007-08 & 2010-11 in the financial inclusion disclosure performance analysis of commercial Banks.

3. Data Sources **:** The basic sources of information for the study commercial banks is the Annual Reports of concerned banks as Secondary data and primary data were collected from interview and field study.

Collection and editing of data

Secondary Data: The main sources of secondary data and information are collected from annual reports of respective commercial Banks. Data and information are collected and compiled according to requirement of the study and analyzed for the test of inclusive growth performance.

Primary Data **:** The primary and non- financial information used in this study have been taken from personal interview and field survey.

***Statistical Techniques* :** The required statistical Techniques Yule's Coefficient of association, Multiple Regression model and X2 test are used to analyze, test and assess the FIDP parameters to make it more inclusive of rural base through information liverages.

Limitation of the Study

1. The study is limited to short period in the financial Inclusion disclosure performance of commercial banks in India.

2. The financial and non- financial information used in this study have been taken from published Annual Reports for commercial Banks only, because of the availability of published Annual report. As per the requirement and necessity of the study financial data and information are compiled, grouped and sub-grouped for analysis and interpretation for satisfying the objectives. For analyzing FIP position of commercial banks few statistical techniques are used, namely Chi-Square test (X2), Yule's Coefficient of association, Coefficient of Contingency, Multiple Regression model, Student's T test for correlation coefficient and ANOVA tests are used to analyze, for assessing the FIDP parameters.

Survey : A field survey was conducted to know the position of inclusion attainment of small retail traders in an urban market selected randomly whether they have bank account, either savings or current account, or not and the results of the field survey are displayed below:

Table-1.2 Qualitative Information of Financial Inclusion

	Mail Retail Traders with 10 pass	Non-M M R Traders	Total
Bank Account No Bank Account	66	08	74
	03	23	26
Total	69	31	100

Source : Compiled and Computed from Field survey among urban mail retail traders

Table-1.3 Expected Qualitative Information of Financial Inclusion

	Mail Retail Traders with 10 pass	Non-M M R Traders	Total
Bank Account No Bank Account	51.06	22.94	74
	17.94	08.06	74
Total	69	31	100

Source: Compiled and Computed from Field survey among urban based mail retal traders

Explanation : It is clearly evident from the Table 1.2 that out of 100 urban retail traders with class 10 pass 66 have access to bank with educational attainment and 3 traders have no bank account with class 10 pass and balance 8 traders have bank account even with no class 10 pass 23 have no bank account without class 10 pass. So, it is enough and shows clear pictures for us that educational attainments have great impact on willingness to enter in banking domain.

Statistical Analysis

Application of Yule's Coefficient of Association: The Yule's coefficient of association is (+)

0.968887.The survey result indicates that the coefficients of association between mail retail traders with academic attainment of class 10 pass have bank account and non-metric mail traders no bank account is positive 0.96887.

***Chi-Square test (X_2) statistic* :**

Proposition I (HP_1) : Impact of Educational attainment and access to bank of urban-based mail retal traders with class 10 pass.

Null Hypothesis (H_0) : Educational attainment and access to bank of urban-based mail retal traders with class 10 pass is independent

Alternative Hypothesis (H_1) : Educational attainment and access to bank of urban-based mail retal traders with class 10 pass is dependent.

Test Statistic : The Chi-Square test (X2) statistic is used under Null hypothesis (H0) with (m-1)(n-1) degree of freedom.

Proposition-II (HP_2) : Extent of Educational attainment and access to bank of urban-based mail retal traders with class 10 pass.

Coefficient of Contingency (C) : After reviewing the qualitative data, we have classified into 2 into 2 contingency table and degree of association between attributes are ascertained by applying coefficient of mean square contingency. The computed value of Coefficient of Contingency (C) is 0.301429. This indicates that degree of association between educational attainment and extent of financial inclusion of urban-based mail retal traders with class 10 pass is positive and the degree of responsibility is 9.08 percent.

Analysis of Result : From the table1.3 it is concluded that proposition two (HP_2) is analyzed and the computed value of X_2 is 9.994 which is more than critical value of $X^2_{0.05,1} = 3.84$, $X^2_{0.01,1} = 6.63$ hence Ho (Educational attainment and access to bank of urban retail traders is independent) rejected and H1 (Educational attainment and access to bank of urban retail traders is dependent) is accepted at both 5 percent and 1 percent level of significance with 1 (2-1)(2-1) degree of freedom. Hence it is concluded that level of educational attainment have strong influence on financial willingness to urban retail traders. In this back drop enough steps; remedial measures and top level policies are to be taken to tame aggressive poverty, growing dispersion and exclusion from banking services. Therefore, it is advisable to bank policy makers, BCM supervisors and urban bureaucrats to reorient from traditional rhetoric and inane embed, interference and mismanagement of urban bank service, now become growing concern and reckoning immense importance even after 42years (1969-2011) of nationalization of commercial banks and 107 years of co-operative movements, to pro-people policies with bio-metric ATMs and information leverages.

The Regression Equation Model

Impact Analysis of FIDP Variables (X, i = 1, 2, … 5) on Performance analysis of response vector through Pooled Multiple Regression Analysis

The Regression Equation of FIDI (Y) = $b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$

Where, b_0 = Constant part of regression equation or Y intercept.

b_1 = Regression Co-efficient of predictor (X_1), b_2 = Regression Co-efficient of predictor (X_2)

b_3 = Regression Co-efficient of predictor (X_3)

b_4 = Regression Co-efficient of predictor (X_4)

b_5 = Regression Co-efficient of predictor (X_5)

Regression Analysis of Y versus X_1, X_2, X_3, X_4, X_5

The Regression Equation is Y=2.00 (–) 1.00X1 +5.00X_2 +1.00X_3 + 0.0000X4 +0.000X_5

Table- 1.3 Regression Analysis of Y versus X_1, X_2, X_3, X_4, X_5

Impact Analysis of FIP Variables on response vector

Predictor	Coefficient	Std Err Coeff	T Value	P Value	Significant T
Constant	(+) 2.000	0.000	*	*	
Predictor (X_1)	(–) 1.000	0.000	*	*	
Predictor (X_2)	(+) 5.000	0.000	*	*	
Predictor (X_3)	(+) 1.000	0.000	*	*	
Predictor (X_4)	(+) 0.000	0.000	*	*	
Predictor (X_5)	(+) 0.0000	0.000	*	*	
	S = Not found	R^2 = Not found			Adj R^2 = Not found

Source : Compiled and Computed from FIDP Index

Table-1.3 reveals that qualitative predictors X_2 and X_3 have strong impact upon response vector Y, and X_1 have negative impact on Y.

The Results of ANOVA Technique: It is evident from table-1.4 that F value is not found (F.05, 5,7 = 3.9715) and P value is also not found and concludes that mean effects are mostly identical nature and mean effect of financial inclusion variables are not significantly defined under any hypothesis.

Epilogue: From the foregoing analysis it conveys that, institutional arrangements and predictor's revision have significant impact upon response vector. Out of five predictors fifth vector was omitted due mostly of identical nature have negative impact and four have positive influence upon response vector. It is advisable to bank policy makers and leaders of urban areas of fresh look corporate inclusion plan and benchmark steps to inclusion agile ness and jitteriness.

Table-1.4 Analysis of Variance

Source	DF	SS	MS	F	P
Regression	4	0.385	0.9625	*	*
Residual Error	0		*		
Total	4	0.385			

Source : Compiled and Computed from FIDP Index

Conclusion

Sustainable Pursuit of Excellence in FIDP in India.

SCOT Analysis : Strength : 1. Presence of established distribution channels of banking products in both urban and rural areas. 2. Low operational costs.3. Availability of wide range of customer base. 4. Low personnel costs.

Challenges: Lower capital base and hence investment scope in relevant technology and achieving economies of scale in rural areas. 2. Fierce competition, leading to a significant rise in the marketing costs of individual banks.3. Infrastructure bottlenecks may hinder in certain cases. Low export levels with foreign customers and foreign branches.

Opportunities : 1. Low rural penetration. 2. Rising level of income and hence disposable level of income. 3. Large domestic market-a population of 122crore. 4. Export potentials with foreign branches. High consumer products with IT leveraged service.

Threats : 1. Removal of fixed uniform savings interest rates for all banks with RBI restrictions. 2. Slowdown of rural demands gradually depending on inane embed money supply network. 3. Tax and regulatory structures. Corporate Governance vector: Green initiative in corporate governance : ''Go Paperless''. The Ministry of Corporate Affairs (MCA) has taken a Green initiative in corporate governance: ''Go Paperless'' and has issued circulars on 21st April, 2011 and 29th April, 2011 inter alia stating that service of various documents by a company can be made through electronic mode. ❐

MSME Finance : A Study of Viability from Bankers' Perspective

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MSME – A vehicle of inclusive growth of Economy

Indian economy is dominated by a vibrant set of enterprises, which are prestigiously known as Micro, Small and Medium enterprises (MSMEs) for their scale of operations. Only 1.5 million MSMEs are in registered segment while the remaining 24.5 million that constitute 94% of the units are in unregistered segment. The role of MSMEs in economic and social development of country is widely acknowledged. They are nurseries for entrepreneurship, often driven by individual creativity and innovation, and make significant contribution to country's GDP, manufacturing output, exports and employment generation. The labour-capital ratio in MSMEs is much higher than in larger industries. Moreover, MSMEs are better dispersed and are important for achieving the national objective of growth with equity and inclusion. MSMEs are broadly classified into two sector i.e. manufacturing and services. The units engaged in manufacturing or producing and providing or rendering of services has been defined as micro, small & medium under MSMED Act on basis of original investment in plant & machinery and equipment as under –

Enterprises	Manufacturing	Service
Micro Enterprises	Up to Rs. 25.00 lacs	Up to Rs. 10.00 lacs
Small Enterprises	Above Rs. 25.00 lacs to Rs. 500.00 lacs	Above Rs. 10.00 lacs to Rs. 200.00 lacs
Medium Enterprises	Above Rs. 500.00 lacs to Rs.1 000.00 lacs	Above Rs. 200.00 lacs to Rs. 500.00 lacs

In order to expand the scope of micro and small enterprise (MSEs), the threshold of investment in plant & machinery and equipment for MSEs is recommended to enhance from above limit to Rs.50 lacs & Rs. 800 lacs for manufacturing MSEs and Rs.20 lacs & Rs. 300 lacs for MSE under services respectively by Nair Committee in its report dated 21st February 20123.

Looking to the significance of SME sector, it is estimated that if India wishes to have growth rate of 8-10% for next couple of decades, it needs a strong MSME sector, without which it would be difficult to realize. Today there are about 30 million MSMEs in the country and this sector has shown an average growth of 18% over the last five years. In this backdrop, MSME is considered to be fast growing sector of economy and the sector gaining more importance to realize theme of 12th Five Year Plan (2012-2017) approach paper ''faster, sustainable & more inclusive growth''. So, this sector offers opportunities of entrepreneurship to younger generation, new areas of MDPs for management institutes, business prospects to lending institutions, issues to regulators & policy makers and areas of research to scholars for making the sector more vibrant and faster.

Methodology & Sampling

Methodology

MSMEs have acquired high place in financial inclusion which is top agenda of Union Government for equitable development of the nation. The sector mainly relies on bank finance for funding its operations that involves a good number of financial and non-financial issues. In view of wide spectrum of MSME finance, secondary data which are published by Reserve Bank of India, SIDBI, GOI and banks in their various committee reports, speeches and periodical reports; have been used in the present study. In addition to published statistics on banking, primary information has also been gathered from branches for a case analysis to assess viability of SME credit over other segment of loans in large size credit old branch vis-à-vis new generation branches of a MSME cluster zone in north part of the country. Primary source of data for case analysis was of smaller size in sample and analysis period was of 3 years (2008 to 2010), but its findings are integrated and tested with the industry level observations taking all scheduled commercial banks (SCBs) into sample. The period of data used in the study ranges from 2 years to 11 years with large number of banks in sample thus findings and recommendations based on the empirical observations may be considered relevant to MSME Finance.

Important statistical techniques such as ratio analysis and comparative growth analysis are used to draw inferences & findings presented in the paper. Study is based on primary as well as secondary data, which have inherent limitation but the author has made sincere efforts to maintain data integrity at all levels.

Study Sample

Different group of banks are taken into sample for extant analysis. The latest data on select important items such as net bank credit, MSE credit, loans to micro enterprises, reasons of sickness, non performing assets (NPAs) pertaining to SME sector for scheduled commercial banks, excluding regional rural banks, from 1999-2000 to 2010-11 published by various authorities has been used for this study. Primary information used for the case analysis cited in the paper. Sample size includes Scheduled Commercial Banks which are around 80 in numbers broadly categorized in 3 groups such as public sector banks (PSBs) including IDBI Bank Ltd, private sector banks and Foreign banks which may be considered reasonable sample to represent banking industry in our country. Also findings of case analysis referred in the paper with smaller sample size have been testified with the observations derived from industry sample and almost all inferences of case analysis found relevant and also fall in line with the industry behavior towards SME finance.

Observations – Credit flow to SME Sector

Loans to Micro & Small Enterprises (MSEs) are reckoned as part of priority sector lending target of 40% for scheduled commercial banks. It is surprisingly noticed that about 5% MSMEs are covered by institutional funding given that approximately 95% of units require to bring into banking fold. The present study has analyzed credit flow to this sector and important observations relating to SME financing are presented in the paper.

MSE Finance by PSBs – A decade analysis (2000-2011)

Percent share of MSE credit declined : Pre-enactment of MSMED Act (2000-2007)

The wonderful growth in absolute term had been registered in credit to MSE sector by Public Sector Banks during last decade indicates that sector has business potential for banks. Credit to MSEs has increased over 8 times from Rs.46045 Crs in 2000 to Rs.369430 Crs (Table-1) in 2011 but percent share of MSE credit to net bank credit (NBC) has consecutively declined from 14.60% in 2000 to 7.80% in 2007.

Legislative change enhanced business prospects : Post MSMED Act era 2008-2011

There was sharp increase in percent share of MSE credit to net bank credit from 7.80% in 2007 to 11.10% in year 2008 with marginal hike to 11.30% in year 2009. This higher growth during the above review period had mainly happened owing to change in definition of MSEs following the provisions of MSMED Act. The investment limit of small (manufacturing) unit was raised from Rs.1.00 crore to Rs.5 crore and small (services) was added to the sector with an investment in equipments & instruments up to Rs. 200 lacs. Also the coverage of service enterprises were broadened by taking tertiary sector into MSE sector such as small road and water transport operators, small business, professional and self employed and all other service enterprises as per definition provided under the Act. Further this ratio accelerated to 13.10% in 2010 that might be because of regulatory change of taking retail trade into service sector. The advances to this sector further increased to 14.81% in year 2011. The credit acceleration in the sector had significantly noticed in absolute growth but proportion of MSE credit in net bank credit has been more or less at same level of 14% which was way back in year 2000 despite widening the coverage of the MSE sector. It reveals that real growth in finance to MSE sector is not adequate in light of significant contribution of the sector in economy such as employment, manufacturing and export of the country. Low share of MSE credit does not only hamper equitable growth of economy but also fails the banks to fulfill their social commitment to the growing society. Banks should therefore, come out with a strategy to improve the percent share of MSE credit to their net bank credit which is stagnant between 13-14% since a long period.

Finance to Micro Enterprises : 5 Years analysis (2007-2011)

The latest 4th all India Census of MSME sector has revealed that of the total working enterprises 95.05% belong to micro enterprises, 4.74% to small enterprises and balance 0.21% are medium enterprises. Also it is observed that 45.38% enterprises are operating in rural areas. Though MSE sector, micro in particular is of great importance with respect to generating employment and contributing inclusive growth of the economy, this segment of industry is deeply credit constrained. Analysis of finance to Micro Enterprises by banking industry revealed some of the important findings mentioned below.

Prescribed share of credit not provided to Micro Enterprises

Recognizing the proportion of micro enterprises at 95.05% and MSE put together 99.79% in total working MSMEs, their share in bank credit is really ironical because micro gets merely 5-6% place in net credit of domestic banks which is very negligible though it is showing consecutive growth from 2.86% share in 2007 to 6.54% in year 2011. As regard the mandatory lending prescription to micro within MSEs credit is concerned, the micro enterprises should have at least 50% outstanding share in banks' total MSE credit as on 31st March 2011 which was 46.87% (Table-1). Furthermore it was observed that their share was declined from previous year (2010) level of 48.19% and public sector banks had not yet given their legitimate proportion of 54% which was way back in year 2000. Under this circumstance MSE borrowers' belief that the lenders are not doing enough as only about 5% of MSEs are covered by institutional finance need to be introspect by lenders themselves against their claim that banks are doing enough for the sector in providing them finance. Also the empirical observations substantiate the recommendation of Nair Committee which prescribed sub-target of 7% of net bank credit for lending to micro enterprises to be achieved in stages latest by 2013-14 and banks miles to go for achieving 60% of MSE advance to Micro enterprises by 2012-13; thus this sector has business opportunities and potential.

Over 50% banks have less than 7% finance to Micro Enterprises

Bank-wise position of finance to micro enterprise is also not encouraging so banks to draw a roadmap for achieving the mandatory lending to this sector because 45% domestic SCBs (Table-2) were attaining minimum recommended credit to the extent of 7% and 25 scheduled commercial banks (PSBs-14, Private banks-11) were behind the level of 7%. It is surprisingly observed that 13 domestic banks had their finance level below 4% to this sector and they need to come out with special measures to fall in line with the achievers for avoiding any penalty provisions to be imposed by policy makers.

Sector gets lesser credit under proposed norms of 7% lending to Micro Enterprises

Reserve Bank of India (RBI) has released the report of Nair Committee on priority sector lending on 21st February 2012 on its website and has sought views/ comments on the report from public. The present study of credit flow to micro enterprises reveals that 7% of net bank credit for domestic SCBs worked out Rs. 211894 crores (Table -2) in March 2011 while the proportionate share of lending to micro enterprises as per mandatory credit norms to the sector at 60% of MSEs should be Rs.274528 Crores (Table-3) in March 2011 which arises the conflicts between two types of mandatory norms of lending to micro enterprises. This comparison of both the norms taking together indicates that proposed recommendation of Nair Committee for micro enterprises lending at least 7% of net bank credit needs to be integrated with extant guidelines of 60% share of micro enterprises within MSEs lending which is higher in the above analysis. If it is the case the proposed recommendation of 7% should be somewhat between 9-10% of net bank credit provided committee intends to improve the proportionate share of micro enterprises from present level which is already more than 7% under extant norms of 60% MSE credit to be given to micro enterprise segment. The policy makers may take call on the issue before final version of priority sector lending mandate for micro enterprises credit by banks in India.

MSE sector : Key to faster & sustainable Growth

Absolute credit surged by 124%

Bank finance is considered to be primary route of funding to MSMEs as a public policy objective to provide timely and adequate credit to the sector. It has been also witness that over the years there is significant increase in credit extended to this sector by banks. Outstanding credit to the sector by all scheduled commercial banks (SCBs) had surged by 124% from Rs.213539 crores in year 2008 to Rs. 478527 crores in year 2011 (Table-3).

Enhancement of existing limits contributed higher growth—Target fresh credit

Y-o-Y growth during review period is showing uneven trend, however, it was observed 19.94% in year 2009 which was grew by 41.44% in year 2010 and the growth rate was declined to 32.08% in year 2011. The abnormal acceleration in year 2010 might be occurred owing to inclusion of retail trade in service sector and therefore, normal growth placed in year 2011. This observation is also validated with a abnormal increase in number of accounts from 48.51 lacs in 2008 & 2009 to 85.05 lacs account in year 2010 registering growth of 75.32%. Since retail trade of loan limit upto Rs.20 lacs were allowed to include in service sector which are normally huge in number thus the quantum of accounts jumped abnormally.

Outstanding credit of all banks grew by 9.37% during year 2011 in number of accounts as against the mandate growth rate of 10% which is now going to be enhanced to 15% as per Nair Committee recommendations. The growth rate in amount and in accounts might be imbalanced owing to the reasons that banks have enhanced credit to their existing clients to increase their outstanding amount but not targeting the new entrepreneurs into their fold. This type of lending does not only cause non-adherence of mandatory lending norms to the sector but also attracts high concentration risks. It does not support equitable and inclusive growth of economy. Banks must equally target credit expansion in new accounts.

Sector responds faster—Its annual growth rate higher than industry rate

Banks in India are mandated to register at least 20% YoY growth in credit to Micro & Small enterprises and 10% annual growth in number of micro enterprises accounts which is now recommended to grow at least by 15% in number of account every year. Public sector banks had registered higher growth rate over the stipulated norms of 20% (Table-3) such as 26.64 %(2009), 44.36 %(2010) and 33.70 %(2011). The growth rate of private sector banks was negative (-0.54%) in year 2009 which further geared up to 38.94% in year 2010 and then declined to 35.93% in year 2011 which shows compliance of lending norms in terms of growth rate. However, foreign banks grew their advances by 16.62% & 17.07% in year 2009 & 2010 respectively but had negative growth (-0.78%) in year 2011 which require corrective measures to adhere to the norms for growth of credit to MSE sector.

MSMEs—Big Bazar for financial inclusion

To recognize the importance of MSME sector from financial inclusion and earning point of view, following findings have been derived by making a pragmatic analysis to grab earning opportunities from the sector.

93% Financial Exclusion—Key to 12th Plan theme of inclusive growth

It is observed that 92.77% MSME beneficiaries have no finance, 5.18% avail finance from institutional sources and 2.05% through non-institutional sources. It is an indicator for the banks that they need to focus on SMEs to achieve national agenda of financial inclusion because exclusion over 92% of MSME units is indeed matter of concern in the history of independence for over 64 years and about 43 years of banks nationalization in our country. Also the study validates the observation that MSMEs are undoubtedly like big bazar group to be tapped by formal credit delivery channel because 93% of MSMEs still rely on self finance. So this sector will be key to realize theme of inclusive growth of 12th Plan.

Enhance data integrity

There is one astonishing observation which indicates that MSEs avails bank loans in 48.51 lacs accounts in year 2008 & 2009 from all SCBs (Table -3) out of total MSME units 261.01 lacs which constitute 18.59%. While only 5 percent MSEs are covered by institutional finance as per latest 4th census of MSME and also notified in a good number of speeches by RBI and its various reports recently released including Nair Committee. This observation leads to the conclusion that number of accounts are not picked up through unique customer ID allocated by banks to their clients and so duplicity in figures. Banks require streamlining MIS for reliability and consistency in data for analysis which facilitate in drawing right policy measure by the regulators and also enhance data efficiency.

Huge credit gap—Open ways to faster growth

The present study has made an attempt to work out the gap in MSE Credit for the banks in India for last two years ended in March 2010 & March 2011 taking an assumption that 15% of total advances should go to the MSE sector. The assumption is reasonable owing to the fact that PSBs have already attained 14.8% share of MSE credit in year 2011. Continuing the same assumption of 15% share in total advances, potential level is worked out considering the annual credit hike of 20% if growth in economy is expected around 8% in subsequent years. However, credit growth of the sector is anticipated much higher because share of manufacturing in GDP is expected to be 25% by 2022 as per 12th Plan approach paper. Also 20% growth in MSE credit which falls in mandatory guidelines of lending to the sector is taken into account for estimated/projected level of outstanding from year 2012 to 2014. Based on the above working, it is observed that there was gap of Rs.162217 Crores in MSE credit in year 2010 which increased to Rs.166279 Crores in 2011 and this is continue to be widen to the extent of Rs.287329 Crores in year 2014 (Table-5). The potentials credit investment to the extent of 35% of actual/estimated outstanding is being missed by Indian banks which can be substantial business loss to the industry and may cause poor economic growth (GDP) to the country if it is not bridged in time.

MSE sector grows higher than overall advances of industry

The analysis made in this paper reveals that MSE sector is most sustainable and emerging segment of business for banking industry. While comparing the credit growth rate of domestic SCBs for last three years this statement has been validated by observing highest growth rate in Micro enterprises as compared to overall increase in net bank credit. Micro enterprises advances grew by 29.41%, 48.33% & 32.69% as against the increase in net bank credit by 22.97%, 21.10% & 19.03% in year 2009, 2010 and 2011 respectively (Table-6). Also the acceleration rate of credit in MSEs is by & large higher than the growth rate in net bank credit during review period so this sector contributes more to the overall increase in advances and this sector is viable proposition for banking industry to maintain sustainable growth in its business.

SME sector contributed less to incremental NPAs

The latest report on Trend & Progress of Banking in India released by RBI for the year 2010-11 reveals that SME sector contributed merely 20.7% in incremental NPAs of domestic banks against the highest of 44% by agriculture, 27.2% by non-priority sector and 8.1% by other priority sector. Percent NPA of MSE during the year 2011 for all domestic SCBs remained more or less same i.e. it was 17.0% in year 2010 which marginally increased to 17.6% in 2011. This statistics for year 2011 is reported not strictly comparable with 2010 because it pertains to 'micro & small enterprises' against erstwhile SSI, so the NPA percent if compared to previous years it would be far below than 17.6%. The sector is therefore, more bankable & profitable as compared to other segment of business in banking. This statement is also substantiated by an analysis done by RBI in its trend report of banking in India that despite increase in limit of collateral free loans to SME sector from Rs. 5 lacs to Rs. 10 lacs in May 2010, the NPA ratio of SME sector witnessed a decline in 2010-11 over the previous year 6.

MSME Finance : Drivers of its Viability

MSMEs across the world are gaining priority for policy makers and regulators who see the sector as key to solving the challenges of improving competitiveness, raising incomes, inclusive growth and generating employment. It is also observed that MSME is one of the fast growing sectors of economy that has huge potential for banks; this sector contributed less in incremental NPA and delinquency rate reportedly declined during last year 2011 despite double the collateral free lending limit. Also the growth rate of credit in this sector is much higher than the overall credit acceleration rate in net bank credit of banks in India. Furthermore, the realization of 12th Plan theme is largely relying on the growth of MSME sector. Government of India is making all possible efforts to give boost the sector including financial and non-financial measures. Based on the empirical observations; the following attributes have been considered strong drivers for advocating MSME credit to derive the conclusion that financing to this sector by banks is indeed not a choice but it is chance to grab this business for sustainable growth of banking in India.

SME Advances — Less risky, faster growing & high yielding

US President Mr Obama in a banking summit in Washington DC in December 2009 had made a business case that SME lending is good for profit. A vibrant SME sector is a powerful driver for wealth creation and economic recovery. Empirical analysis made in the study reveals that apprehension of considering SME as a high risk business is not tenable because default rate of SME loans is zero as compared to other business loans. The important observations derived from a case analysis based on primary information gathered (Table-8) are narrated hereunder in the paper for the period from 2008 to 2010 which are still valid as some of the findings picked up from RBI report on trend & progress of banking in India 2010-11, substantiate the observations of the present case analysis such as :

Zero default rates in NPA testifies that SME loans bears lower or nil (Table-8) credit risk as against other segment of loans. Industry level trend observed by RBI in its report also evident that SME sector has contributed less in incremental NPA in last year 2011 and also NPA has declined in 2011 over its previous year despite increased collateral free limit under CGTMSE scheme.

Banks are mandated for collateral free lending which is guaranteed by CGTMSE and accounts considered without collaterals are standard which goes against the covenant of preferring security obsessed lending. This statement is validated by facts revealed by RBI in its trend analysis report too.

Though there is absolute growth in SME advances its share in total advances in large credit branch is still low ranging between 7-11% which is further a drive force for sustainable growth as large corporate advances are at saturation and this target group is very limited as compared to SMEs. This finding is duly supported by the higher growth rate of lending in MSE sector as compared to overall credit acceleration of the industry during last three years from 2009-2011 (Table-6)

Percentage interest earning to SME advances is much higher than interest earning rate of total advances i.e. it had been 5.58% and 9.76% in case of SME advances against 4.23% & 7.46% earning rate to total advances for the year ended 31.03.09 and 31.03.10 respectively in new generation branch. It signifies that SME advances yield more in terms of earning and bears less concentration risk. The earning rate is lower on SME in old branches mainly because of rupee export finance, which is offered at concessional rate of interest as per government policy directives.

Institutional, Policy & Government incentives : Enhance viability of MSME Finance

The dedicated organizational set up and also other special measures announced by the government for SMEs leveraging the banks over private lenders to enhance viability of SME finance. A few of them are cited in the paper :

Institutional advantages to Banks

(a) Banks have set up dedicated processing cell & SME Loan Factory with a pool of specialized skills of SME credit. Also set up regional MSME care center giving different nomenclature by the banks to facilitate

MSMEs for quick redressal of their grievances. Banks should therefore make best use of this capital investment in hardware and humanware of specialized delivery channels to create yielding portfolio of SME loan books.

(b) Banks' exposure limits is much higher than any other private financers to cater financial needs of big amount.

(c) Banks are one stop shop i.e. loan syndication, advisory services, insurance, working capital, LC/BG and many more are offered by banks.

(d) Wide branch networks and vested huge lending powers of various functionaries at branch levels for MSMEs.

(e) Banks to achieve mandatory lending to MSME for inclusive growth such as 20% YoY growth in credit to Micro & Small enterprises, 60% of MSE advance to Micro enterprises by 2012-13 and now 7% of NBC by 2013-14 as recommended by Nair Committee, 10% annual growth in number of micro enterprises accounts which is now proposed to grow at least by 15% in number of accounts. Adoption at least one MSE cluster by each lead bank of a district.

Policy incentives for MSME finance by banks

(a) Statutory provisions requirement for standard advances under SME advances is merely 0.25% as against 1.00% in case of real estate and 0.40% for other advances which is a reward for banks to make lower provision towards buffer capital on SME advances

(b) Collateral free loans up to Rs. One crore are secured by CGTMSE guarantee which is highly liquid at par with cash security as compared to any other collateral in loan accounts

(c) Allocation of Zero risk weight to SME loans guaranteed by CGTMSE for capital adequacy requirement

(d) Simplified computation5 of working capital limit to MSE units on basis of minimum 20% of their estimated annual turnover up to limit of Rs. 500 lacs.

(e) Union Government has schemes of felicitating Best Bank awards in recognition of contribution made by banks for promoting SME sector that builds Corporate Brand which is invaluable and add new feathers to the business of winner banks

Government enhances capacity building for competitive advantages to MSMEs

(a) Indian Opportunities Venture Fund (IOVF) for Rs. 5000 Crs with SIDBI is proposed to be set up for enhancing equity to the sector as per budget (2012-13) announcement.

(b) Two SME Exchanges have started operations to greater access to finance.

(c) Public Procurement Policy introduced with a provision that every Central Ministry/Department/PSU shall set an annual goal for procurement from MSE sector at the beginning of every financial year. Objective is to achieve an overall procurement goal of minimum 20% of total annual purchases of products or services produced or rendered by MSEs.

(d) Limit of turnover for compulsory tax audit of account has been raised to Rs.100 lacs (from Rs.60 lacs) in recent budget of 2012-13.

(e) Capital gain tax will be exempted on sale of residential property if sales consideration is used for subscription in equity of a manufacturing SME company for purchase of plant & machinery.

(f) National Manufacturing Policy has aim to increase share of manufacturing in GDP to 25% and create 100 Mn new jobs by 2022; to achieve this target, MSME growth is considered to be an answer.

Recommendations—The Way Forward & Challenges ahead

Bankers consider MSME lending more risky because of many reasons such as MSMEs don't have collaterals for loans, they have low equity base, absence of marketing tie-up, diversion of funds, poor book keeping, low technology level & so on. Despite these common weaknesses in MSME lending, private lenders assumes MSMEs at the best business model for higher profitability & sustainable growth due to numerous factors namely—Lesser default rate, high yield, dispersed credit risks, no complexities of legal / valuation search of properties and fraudulent title deeds because loans are collateral free, highly potential group for cross-selling like insurance cover of borrower, credit counseling and many more. In view of good number of incentives to banks and also driving force for MSME lending mentioned in the paper; following measures are recommended from bankers' as well as borrowers' perspective based on the empirical observations of the study which probably would help bankers in making their SME loan book strong for sustainable development of banking industry and inclusive growth of Indian economy.

(a) Recommendations for Bankers

Handholding—Enhances business partnership

Bankers are expected to be proactive in offering financial and non-financial consultancy to MSMEs for innovation besides their role as credit provider. To enhance banks' participation in affairs of MSMEs through convergence on credit & non-credit issues like business planning, marketing, accounting & finance, human resource management, use of technology etc; top management of the banking industry should train their field staff through customized programme to meet specific needs of SMEs instead to focus on monitoring mechanism that starts at later stage after imparting funds. This sort of consultancy and convergence should make part of KYC process beyond the formal compliance of obtaining copies of certain documents relating to identity proof of business and entrepreneurs. This handholding & conciliatory approach deepens the relationship as true business partner of borrower and also help in identifying right beneficiary of public money. Thus what a banker requires is to be positive while dealing with MSMEs because there is need of human touch at the point of establishing business relationship. This warrants attitude transformation, which change DRISTI (vision), not the SRISTI (world) because it is one & same for all. Bankers to view that alone entrepreneur is not in need of money but bankers are equally searching entrepreneurs for lending money to earn interest for paying to depositors and subsidizing their intermediation/operational costs.

MSME risk management—Activity Based Credit (ABC)

Security is though one of the credit risk mitigation measures; it is not always workable because of non-realization of market value, non-marketable titles deeds as it has been witnessed in recent past that financial institutions who have built their sub-prime loan books had disappeared from the market due to either non-realization of market value or high diminution provisioning. Those who have focused on activity based lending could survive. Since credit requirement of MSMEs to the largest extent are small size which qualify for guarantee under CGTMSE that is highly liquid security as compared to any other tangible collaterals. It is therefore, recommended that banks to encourage collateral free & activity oriented lending which are of self liquidating in nature, building zero risk weight loan books which does not charge to the precious capital of banks.

Minimize Turn around Time (TAT)—Business Process Re-engineering

Time is money and it is said that 'if one wants more time to take correct decision in that case a correct decision is also wrong when it is taken too late'. It has come across in many cases that lack of knowledge bounds a banker to become business diverter & decision shyer. It is thus recommended that credit operations should be driven by a Knowledge Banker which is considered to be super power that makes the man ''decision taker, today believer & tomorrow's beginner''. Some of the banks have already set up dedicated outlet such as central processing cell, SME Loan Factory etc for catering financial needs of SMEs equipped with skilled manpower of customized credit products & services as part of their business process re-engineering (BPR) to reduce turnaround time; but many more banks still require to take necessary measures of improvement in TAT norms. Adoption of right BPR models helps a bank in identification of wastage which led to more than 50 percent reduction in Turn Around Time (TAT) for customers' more than 50 percent reduction in duplication of work. Less number of handovers and system inputs that lower chances of error and reduced operating risks which will factor productivity and efficiency in lending operations.

Reserve limit for SME dues—Big corporate delay payments

Large corporate buyers of MSMEs normally delay in settlement of dues towards their bills of goods supplied that adversely affects the recycling of funds and business operations. Government has though strengthened the provisions of Interest on Delayed Payment after enactment of MSMED Act; banks are also directed to sanction separate sub-limits within the overall limits sanctioned to the corporate borrowers for meeting payment obligations in respect of purchases from MSME sector. The same is also to be certified by practicing Chartered Accountants while completing their audit of large corporate for which the professionals should be meticulous in their certificate and must use all due care. Monitoring of quick realization of SME dues by large corporate including public sector enterprises is required by banks to address this problem.

(b) Recommendations for MSMEs

Purposeful use of credit

Money must be used for the purpose it is given and to be repaid in time enabling the lenders to provide lifeline to the productive & economic activities, which are backbone of any national growth. Diversion or siphoning off funds to be treated like illegal business of stealing bloods, kidneys & other parts of human organs which are criminal and life imprisonment offences and make unkind to the kind world. MSMEs must therefore, utilize the money for which it is granted to build lifeline of their business. Prior counseling of lender is mandatory in case change in use of money is warranted to mitigate risk of failure.

Demand credit—For dream project at competitive rates

Entrepreneurs should understand that the activity, which is conceived rather than which is influenced by others because perceiving the idea make slave and normally do not allow to be independent whole life. If this approach is adopted since beginning then major problems like demand of products, its marketing and other relating problems will never be faced by entrepreneurs. Conceiving the project is like giving birth to a child by a biological mother who ensures all round development of child as sure as rising the sun whilst perceiving is as good as stealing franchise without patent right & fees, which is not only a punishable offense but also sounding closure sign of the project as sure as death.

MSMEs should also understand difference between money and credit. Unlike money, credit has to be self-liquidated on a viable project and has a cost. One must appreciate that banks are highly leveraged institutes that lend money placed by depositors with them and thus have to practice prudent lending and be cautious and sure of the safety of the money of their depositors. On the cost of credit, while interest rate have been deregulated by RBI, interest costs to SME is a very small fraction of their operating costs, which works about 4%, thus SMEs should not ask for cheaper credit from the banking sector, but ask for timely & adequate credit at competitive rates.

Equity market for SME : Alternate source of funding

SME funding at a point when banks deny or reluctant, the equity capital is then necessary thus access to equity market is a genuine problem. At present, there is almost negligible flow of equity capital into SME sector. The much awaited SME platform of Bombay Stock Exchange (BSE), for SME companies has started its operations from 13th March 2012. This move has come at a time when smaller companies find raising funds through debt difficult. Around half a dozen small and medium companies have given approval to enter the capital market and an equal number of applications are in the pipe line with BSE. Also it is anticipated that around 100 small companies would be listed in subsequent 18 month. MSME sectir expects Rs.2.5 lacs Crores through equity route & Rs.4.7 lacs Crs through banks loans during current fiscal as per estimates of MSME ministry2. Besides, BSE the National Stock Exchange (NSE) has also launched its exchange for SME called 'Emerge' on same day i.e. 13th March 2012.

This beginning has opened the ways for the players to get funds without interest on the basis of their credentials, which was difficult to get from the banks. Companies with post issue paid up capital of less than Rs.25 crores are eligible to be listed on the SME platform. This would fetch much lesser fees for merchant bankers, who charge a percentage of the issue size. The mechanics of listing on a stock exchange such as audited balance sheets, being subject to corporate governance norms would address many of the transparency and informational asymmetry constraints that banks face in lending to the SME sector. Besides, equity financing lower the debt burden leading to lower financing costs and healthier balance sheets for the firms. Also the continuing requirement for adhering to the stock market rules for the issuers lower the on-going information and monitoring costs for the banks. The new opening of alternate market for SME funding would be challenge before banking industry with a clear mandate to come out with need based SME products at reasonable price offer with lesser paper formalities & documents to retain their business share. Also it is imperative for SMEs to keep them ready for forthcoming challenges from adoption of IFRS in future, which are though exempted for SMEs at present.

Educate SMEs & create credit awareness—Role of Chambers & Associations

Togetherness enhances efficiency of any system. In this context, there is need to understand by SMEs that banks have obligations to their depositors and other stakeholders to safeguard their interest. SMEs as customers of bank credit have therefore, certain duties towards banks such as repaying bank loans, maintaining proper books of accounts, submitting information correctly and more importantly sharing information about financial problems if arise so that they can work together with the banks in resolving them. Also it is in welfare of MSEs to get them rated from rating agencies, as it could enable them to negotiate with their bankers for interest rate reduction, larger loan size or even obtain faster process of their loan application. They must also aware that if they default and their credit history is poor they will find it difficult to access bank fiancé, as banks have been mandated to pass on all credit history of their clients to CIBIL or any other credit bureaus registered with RBI. MSME chambers or associations to collaborate with banks, training institutes, business schools and management institutes to organize workshops & training programmes for their member on basic accountancy, information technology, cash flow, various financial products for MSMEs. Such awareness campaigns will help the entrepreneurs for easy access to bank credit because while availing finance from banks which is based on financial statement. If borrowers have informative financial statements with a strong financial condition as reflected in terms of financial ratios; it will expedite credit process and ensure timely & adequate credit supply.

Conclusion

Most economies of the world are in serious crises owing to worst social and economic symptoms such as a high level unemployment and especially of younger generation. The United Nations, on the eve of 2011, made a significant warning that at least 22 million new jobs need to be created immediately, to avoid the world plugging into a more crises in subsequent years. The key of this problem is with MSMEs. In India, the latest findings from the 4th MSME census indicate a mixed picture of sector. An overall scaling up is visible, both in terms of units and of the average investment size. Growth rate of the sector is greater than that of overall growth of economy. The death rate has come from 39% (2001-02) to 21.6% (2006-07)8. 12th Five Year Plan has a logical strategy for MSME sector. GOI through National Manufacturing Policy (NMP) seeks to achieve inclusive growth of Indian economy with broad objectives such as increase share of manufacturing in GDP to 25%, create 100 million new jobs by 2022 and many more. Innovation is the sine quo non for ambitious growth of the sector and credit alone will not help; what is needed is relevant financial product that address life cycle of MSE firms. Banking sector has therefore, huge opportunities of viable business from MSMEs because this sector stands as strong source of inclusive growth in an economy. However, Banks now have challenge to customize their products to meet innovative needs of MSMEs at competitive rates for the sector to grow. It is witness from the findings of study that growth rate of MSME sector has always much higher than the overall credit growth of baking industry that coins the phrase "... Small is mighty, profitable & good for sustainability ..." ❐

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Statistical Tables

Table-1 : Credit Flow by PSBs to MSEs from 2000 to 2011

(Rs in Crores)

Year	Net Bank Credit (NBC)	Credit to MSEs	% to NBC	Credit to Micro Enterprise	Credit to Micro Enterpri-ses as % of MSE credit	Y-o-Y Growth (%)
2000	316427	46045	14.60	24742	54.00	–
2001	341291	48400	14.20	26019	53.70	5.11
2002	396954	49743	12.50	27030	54.30	2.77
2003	477899	52988	11.10	26937	50.80	6.52
2004	558849	58278	10.40	30826	52.90	9.98
2005	718722	67634	9.40	34315	50.70	16.05
2006	1017614	82492	8.10	33314	40.40	21.97
2007	1314744	102550	7.80	44311	43.21	24.32
2008	1361595	151137	11.10	66702	44.13	47.38
2009	1693876	191408	11.30	83945	43.88	26.65
2010	2109076	276319	13.10	133154	48.19	44.36
2011	2493498	369430	14.81	173156	46.87	33.70

Source : Various RBI Reports on Trend & Progress of Banking, Committees' & Banks' reports

Table-2 : Finance by banks to Micro Enterprises (After enactment of MSMED Act)

Year	Micro Enterprises (Rs in Crores)			Adjusted Net Bank Credit (ANBC) —Rs in Crores			%age of Micro loans to ANBC—Rs. in Crores		
	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs
2007	44063	3256	47320	1317705	336589	1654294	3.34	0.97	2.86
2008	68937	8830	77767	1364267	343396	1707663	5.05	2.57	4.55
2009	89505	11130	100635	1693437	406543	2099980	5.29	2.74	4.79
2010	133154	16113	149268	2074472	468649	2543121	6.42	3.44	5.87
2011	173156	24911	198068	2493498	533560	3027058	6.94	4.67	6.54
Bank Group wise position of lending to micro enterprises - 31.03.11									
Below 4% to ANBC							5	8	13
4% to less than 7%							9	3	12
7% & above							12	9	21

Source : Reports of various banks, data extracted from Nair Committee Report (February 2012)

Table-3 : Credit flow by SCBs to MSE Sector

(A/cs—in Lacs & Amount—in Rs Crores)

Banks	March 2008		March 2009		March 2010		March 2011	
	A/cs	Amount	A/cs	Amount	A/cs	Amount	A/cs	Amount
PSBs	39.67	151138	41.15	191408	72.17	276319	73.98	369430
			3.73%	26.64%	75.38%	44.36%	2.51%	33.70%
Private Sector Banks	8.19	46912	6.78	46656	11.31	64825	17.18	88116
			-17.21%	-0.54%	66.81%	38.94%	51.90%	35.93%
Foreign Banks	0.65	15489	0.58	18064	1.57	21147	1.86	20981
			-10.78%	16.62%	170.69%	17.07%	18.47%	-0.78%
All SCBs	48.51	213539	48.51	256128	85.05	362291	93.02	478527
			No Change	19.94%	75.32%	41.44%	9.37%	32.08%

Source : Data extracted from RBI keynote paper dated 4th February 2012. Figures in %age indicate Y-o-Y growth/decline in outstanding credit

Table - 4 : Distribution source of finance to MSME sector

Source of finance	Distribution of MSME units			% Distribution		
	Regd	Unregd	Total	Regd	Unregd	Total
No Finance/Self Finance	1362568	22850626	24213194	87.77	93.08	92.77
Finance through Institutional sources	174060	1177212	1351272	11.21	4.80	5.18
Finance through Non-Institutional Sources	15864	520467	536331	1.02	2.12	2.05
Total	1552492	24548305	26100797	100	100	100

Source : Summary Results of 4th All-India Census of MSME

Table -5 : Prospects of MSE Credit

Banks	Gap in MSE Credit (Rs in Crores)				
	2010	2011	2012	2013	2014
PSBs	128834	126415	151698	182037	218445
Private Banks	30041	31514	37817	45380	54456
Foreign Banks	3342	8350	10020	12024	14429
All SCBs	162217	166279	199534	239441	287329
% gap to outstanding MSE advances	45%	35%	35%	35%	35%

Source : Computed by Author from published data of banks various reports

Table - 6 : Annual Growth in Net Bank Credit vis-à-vis MSE Credit

	% YoY growth in Micro Enterprises			% YoY growth in MSEs			% YoY growth in NBC		
Year	PSB	Private Banks	Domestic SCBs	PSB	Private Banks	Domestic SCBs	PSB	Priavte Banks	Domestic SCBs
2009	29.84	26.05	29.41	26.64	–0.54	20.20	24.13	18.39	22.97
2010	48.77	44.77	48.33	44.36	38.94	43.30	22.50	15.28	21.10
2011	30.04	54.60	32.69	33.70	35.93	34.12	20.20	13.85	19.03

Source : Data extracted from Nair Committee Report (February 2012) & author computed growth rates

Table - 7 : Reasons for Sickness in MSE Sector

S. No.	Reasons for sickness / incipient sickness	% of sick units*
1	Lack of demand	71.6%
2	Shortage of working capital	48.0%
3	Non-availability of raw material	15.1%
4	Power shortage	21.4%
5	Labor Problems	7.4%
6	Marketing problems	44.5%
7	Equipment problems	10.6%
8	Management problems	5.5%
*The total will exceed 100%, as some units have reported more than one reason		

Source : SIDBI Report -2010 on MSME Sector (Table 5.20)

Table-8 : SME Credit of a New Generation & old large size credit Branches

Particulars (Rs in Crs)	Large Credit Branch (33 Years old)			New Generation Branch (2 Years old)	
	31.03.08	31.03.09	31.03.10	31.03.09	31.03.10
Total Advances	91.48	125.24	155.51	4.72	11.13
SME Advances	6.76	9.20	17.87	2.51	5.33
(% to Total Advances)	7.39	7.35	11.49	53.18	47.89
Total NPA	0.98	1.22	2.35	–	–
Of which—NPA in SME	–	–	–	–	–
Advances under CGTMSE	–	–	4.50	0.05	0.74
Of which—NPA	–	–	–	–	–
Total Interest Earned	10.12	13.12	16.50	0.20	0.83
(% Interest to total advances)	11.06	10.47	10.61	4.23	7.46
Interest on SME Advances	0.52	1.00	1.60	0.14	0.52
(% to total SME Advances)	7.69	10.87	8.95	5.58	9.76

Source: Primary data collected from Bank Branches

The Coalition Hurdle to Capitalism : A Development Logjam

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Introduction

At a time when we contemplated writing this note the country was witnessing a desperate logjam in its parliamentary affairs with both the houses of the Parliament getting stalled by constant opposition on the issue of allowance of 51% FDI in the Indian Retail Sector. Surprising to many is the fact that eternal foes in politics at the regional level or states are also joining hands at the national level in their agitation against the central government decision. In fact, in a vastly spread multi party system in India, the ruling party at the centre had found only a couple of regional parties to their support. A closer look must therefore emanate the enormity of the issue at hand. For the time being, to restore normalcy in the parliament, the government has been forced to put the decision 'on hold' until a 'consensus' is reached!

Early Literature on Social Choice Theory – Building Blocks of our Analysis

The basic focus of this article is supposed to be on the problems that the executive in an economy may face in implementing forward looking policy frameworks due to coalition commitments in particular and bindings of a democratic political system in general. The debate on how democracy and capitalist decisions combine or collude is not a very new one and dates back to early studies by Kenneth Arrow where he highlights his world famous "Impossibility Theorem." We can very well avoid the technicalities and the interested reader is referred to Arrow (1951), which is till date one of the most celebrated results in political science/economics. As a simple thumb rule one can interpret Arrow's result as one that points out that the only voting method without any flaws is actually, "dictatorship."

This leaves us contemplating on the fact whether "dictatorship" is therefore the right way of implementing policies which for our country is an outright negation because we pride ourselves in being a huge "democracy". Therefore, if Arrow's theory was to be believed, the inevitable fact remains that any decision making in our country has to be suboptimal, at least from the societal point of view. We shall discuss the Arrow Impossibility Theorem in its simplest form to try and illustrate how it can lead to a political quagmire.

Most of Marxist literature used to be driven by the belief that Capitalism could only flourish by oppression of the lower classes or suppression of information pertaining to asymmetric knowledge. Notably, Indian political scenario over the decades, ever since Independence has time and again witnessed Left dominated regimes both at the National and Regional levels. This notion of Capitalism was put to rest by Przeworski and Wallerstein (1982) who propounded the idea that, "Class Compromise" could be equilibrium. The logic behind this was the rich might fear revolution and unionized protests which involved prohibitive costs of resistance and hence might give in to the idea of a proper egalitarian democracy. Similarly, the poor would realize that the transitional costs of defining property rights over struggling groups could be so huge as to consent for private ownership. Therefore, in our study we shall probably in accordance with this work be able to explain why certain extremist political parties agree to certain compromise formulae and vice versa.

Multidimensional Politics and its impact was probably best studied by Esping – Anderson (1990) where he distinctly identifies and analyses details of the types of Capitalism ranging from Conservative to Progressive. Many of those ideas entail the focus of our attention as to diversity in political spectrum which can naturally translate into opinion difference and hence positional difference on a particular issue.

Asking Questions: Does Democracy Hinder Capitalistic Decisions?

We begin our analysis by addressing this fundamental question. We stick to our case study for this cause and reckon it shall suffice to drive home the claims that we are trying to make. The move to allow FDI in retail trade is evidently the mastermind of the Honorable PM Dr Manmohan Singh and his world famous aides, most of whom are stalwarts in economics. As students of economics, there is reason to support the cause, as there maybe reasons to oppose this cause as students of political science or even political economics. Our idea is to do neither. The main reason why we took up this issue is to hit on the fact that even if there is governmental will to open up the economy to the market and free it from the strangle hold of regulations, a democratic framework may not always allow the same. This is a fallacy in many ways and it raises the big question whether capitalism is hindered by democracy? To search for answers to this question, we need to look at the composition of the opposition. A couple of major allies of the Government have come out and vehemently opposed this move of the union government. It is innocuous to assume therefore, that the decision to withhold such a move is massively influenced by ally pressure. The Government could not have survived at the centre without the support of these allies or other substitutes (who also incidentally were against the move). It would have been interesting to see what the ruling party did if the two parties who actually supported the decision had enough numbers to keep the government in power (Ironically one of them actually belonged to the opposition coalition). The hunch we have is that there were high chances that the decision could have gone through had this been the case, as did the decision on the N-Deal a couple of years back when a political block supporting the government from outside backed out but others came to the rescue. Thus it is better to modify the assertion of ours so that capitalism is hindered not by democracy as a whole but probably by coalition politics. It is very unlikely that a claim such as this based on just a simple observation would go unchallenged and therefore requires touches of formality which we seek to develop slightly in the coming section, within the purview and purpose of this article.

In Search of Answers : Regional Commitments

Basically, we need to look at the prospects of Capitalism, in any degree whatsoever, in a political set up. Even more precisely, we look at the chances that a Pro-Capitalist move or ideology shall go through without trouble, in a country ruled by coalition governments. There are several advantages and disadvantages of coalition politics but the essence of why a coalition government is formed at the centre is the disproportionate power distribution of national parties and the importance of regional issues and individualized opinions. Therefore, various parties in a coalition have to defend various agendas which are bound to clash because if they did not, separate parties would not have emerged in the first place! Under such a situation, it gets extremely difficult to drive through any opinion especially in a plutocratic way. Sensitive decisions regarding capitalism and allowing the private entrepreneur independence will therefore be under threat in any sort of coalition government, let alone in India where dozens of party form coalitions.

In the Indian setup particularly, regional parties have huge roles to play in determining who forms a government at the centre. Also, elections are held based on local issues and performance of state governments, even for the Centre. There is hardly a voter even in urban India who votes for different parties for different hierarchical elections. This is because, there is hardly a regional politician contesting for the National polls who campaigns National Issues. If you go to any campaign before a election, the usual promises are better drinking water provision, better roads, lighting up of thoroughfares, cleaner parks etc be it a Municipal election or a Loksabha poll. Therefore, parties who dominate regions, decide who is at the centre. Such parties are under obligations to uphold the interests of their voters, even if it is a minor population compared to the rest of the country. Capitalist decisions, therefore almost certainly come under massive political unrest in a country with problems of unemployment and poverty and on top of that illiteracy. The primitive objective of a Capitalist as taught to youngsters in school is a ''profit motive'' which is supposed to be a terrible phrase with voters!

The Theoretical Premise

Politics has two standard types in the literature. One is the rent-seeking type or the ''opportunist'' politician and the other is the ''partisan'' or ideology-oriented (or supposedly so). The problem that we witness for a decision like decontrol of the economy is a clash of interests between both types of politicians. There are opportunists who are ideologically irrelevant and wish to take decisions purely to maintain office. There are others who are partisans and may take atrocious decisions to uphold their ideology even leading to loss of office. In a coalition government, it is not surprising that either type of politicians shall be present and clash of interests will lead to disruption of developmental activities. The analysis we have undertaken can be best compared with two interesting theoretical tools borrowed from economic theory. One the Arrow Impossibility Theorem and the other is the Prisoners' Dilemma (Game Theory).

Arrow (1951) had pointed out that ''transitive'' preferences over choices are essential. If we consider a situation as illustrated by Maddala and Miller (2004) where there are 3 policy alternatives to be chosen by a majority vote. Let them be denoted as A, B and C. Assume three political parties denoted as P, Q and R. Let them announce their preferences over the alternatives by ranking them as 1,2 and 3 with 1 being most preferred. Maddala and Miller, following Arrow, in a textbook example concoct a following preference table :

	Policies		
Parties	**A**	**B**	**C**
P	1	2	3
Q	2	3	1
R	3	1	2

Consider the above table. Both P and Q prefer A over B. Hence for a majority voting between A and B, A would be selected. Now consider the policy pair B and C. P and R prefers B over C. So, once again, if a majority vote is taken over B and C, B would be selected. So, overall we find, A is preferred to B and B is preferred to C. Arrow had claimed that by transitivity and simple rational logic, A should as a result be implicitly preferred to C which is a worse policy than B which in turn is inferior to A. However, in the above pattern, we find Q and R parties prefer C over A. Therefore, if a majority vote is taken over A and C, then C goes through. This is what Arrow termed as the Impossibility theorem in the simplest possible way. It is impossible to achieve a decision of selecting one particular policy in a multiparty system with cyclical preferences such as above. The FDI in retail and the logjam is actually not just the question of retail trade alone but conflicts of several other intertwined interests of political establishments which cannot result in a concrete decision.

We can also compare this situation with the classic example of the ''Prisoners' Dilemma'' in Game Theory whereby an outcome due to ''selfish'' individualistic decisions is achieved which is not the best possible situation for society. It typically captures the story where two prisoners' are on trial for a joint crime but not enough evidence is available for them to be convicted. The police put them in two different cellars and they are asked to either Confess their crime or Deny their role. Both prisoners individually take their decisions in separate cellars and do not know what the other is doing at that time. The police however tell them that if both end up confessing, then they get 6 months of jail each. If one ends up confessing and the other does not, then the one who confesses is rewarded for honesty and let off scott free but the other is put to jail for 1 year. Finally if both end up denying then they shall be held in custody for two months after which they shall be released. Under such a situation, the best individual outcome is to get away scott free by confessing and hoping that the other denies. As a result, both prisoners end up confessing by similar thoughts. However, if both could have denied then they could have probably ended up with lesser period of custody (2months as opposed to 6) which could have been a better outcome. This outcome is not at all feasible because if one chooses to deny, then there is fear of the other confessing (given that is exactly what he wants) and the one who denies ends up with 1 year in jail. So, he shall never do that.

This outcome in Game Theory is achieved by the concept called, ''Nash Equilibrium'' named after John Nash, the famous Mathematician. Nash Equilibrium basically identifies the ''best response strategy'' to all possible contingencies of the other ''player'' or opponent. Thereby, in the prisoners' dilemma game, if convict 1 was to choose either of ''confess'' or ''deny'' options, convict 2 is ideally suited to choose ''confess'' as his best possible response. Similarly convict one shall also end up choosing confess.

Payoff (reward) to prisoner 1(2) by Confession –

- 6months in jail (if Prisoner 2(1) confesses)
- 0 months in jail (if Prisoner 2(1) Denies)

Payoff (reward) to prisoner 1(2) by Denial –

- 1 year in jail (if Prisoner 2(1) confesses)
- 2 months in jail (if Prisoner 2(1) Denies)

The above can be represented in matrix notation as below :

Player 2		
Player 1	CONFESS	DENY
CONFESS	–6, –6	0, –12
DENY	–12, 0	–2, –2

The minus sign has been denoted to signify ''negative satisfaction'' at being jailed. Basically, the matrix scores ''rewards'' in a positive sense. The payoff of Player 1 is written first and the payoff of Player 2 is written thereafter as a convention.

The basic idea conveyed by this elaborate explanation of a very common game theory problem is the fact that co-operation is very hard to achieve in a strategic set up. Each player or stakeholder shall look to avoid the worst at first opportunity and if that means compromising with the better, so be it. There is lack of trust between the two stake holders. Just like one player in prisoners' dilemma does not know whether the partner will also ''deny'' in order for his denial to fetch lesser misery, a political party also cannot commit to a policy against the interests of its region as it is unsure of support from the centre in future. Allowing FDI in retail does not ensure the regional parties of total support in every issue in the future from the ruling party in the centre. Similarly, the ruling party at the centre cannot commit that support because it is not sure of the support of regional blocks for the central policy of FDI in retail. As a result both stick to their own viewpoints and a societal suboptimal outcome is attained whereby neither the regional parties garner enough for their states from the centre, nor the central party can evoke regional support and take bold decisions for the nation.

Concluding

Problems with democracy and its functioning have been prevalent since long. Politics in its own rights deserves a lot of analysis and study. With coalition politics becoming the order of the day, the subject is actually gaining even more momentum and is becoming challenging. We have tried to elaborate in this paper, how a government lacking in numbers in the parliament may face a logjam, like India is currently facing due to obligatory politics of regional blocks which are by no means unfair or rigid. Neither are they myopic but unfortunately the system is such that it is acting as a hindrance to forward looking development. No party can resist opposition from within its coalition unless it has ''dictatorship'' powers that translate from parliamentary seats. Therein we step into some theory whereby we point out how Kenneth Arrow's impossibility theorem is relevant even today. We also suggest a prisoners' dilemma case borrowed from Game Theory to show how lack of trust and cooperation can lead to a stagnation of affairs.

In our case study, it is stubborn on part of some to stick to their rudimentary idea of capitalism on the one hand and similarly it is equally obstinate on part of others not to allow any deviation from textbook definitions of development. There are questions as to why percentage of FDI in other sectors is not increased before looking into retail. Similarly, there are questions as to how long does India need to be on a patriarchal protective regime. At the same time questions arise on why infrastructure is as poor as it is but on the other hand primitive technology and mythical self reliance shall never allow such growth. Amidst such confusion, it is not only the parliament but the entire country and its path of development that faces a logjam!!

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Economic Liberalisation and Indian Public Sector Enterprises

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Introduction

Public enterprises, being an instrument for self-reliant economic growth of India in order to develop agriculture and industry, diversify public economy and overcome economic backwardness, aim to meet the objectives of the Indian state policy. The objectives of the public sector enterprises of any country should broadly confirm to the objectives of the state policy which it wants to accomplish through the medium of public sector. Public Sector Enterprises (PSEs) have acted as an instrument for self-reliant economic growth of India in order to develop agriculture and industry, diversify public economy and overcome economic backwardness. But Indian economy today is passing through a process of crucial change. (Singh V.S., 1986) The failure of the public sector to fulfill the role assigned to it resulted in the protest become louder and more articulate. The issue of public sector versus private sector assumed greater significance immediately after the attainment of independence when the country was faced with the gigantic problem of accelerating the pace of economic development. The objective of liberalization has been to make Indian industries more efficient and globally competitive.

Review of Literature

Rao, Prakasha and Ramana (2001) concluded in their study ''Disinvestment : An Indian Perspective'' that public sector was thought of as engine for self-reliant economic growth and development. The present paper highlights the need for privatization, disinvestment, methods of disinvestment, present scenario and critical evaluation of disinvestment in Indian context.

Tiwari and Prabhakar (2001) conducted a study on ''Disinvestment in Public Sector Enterprises (PSE's) in India''. This paper aims at questioning the very purpose, procedure and timing of disinvestment in PSE's in India.

Economic Liberalization and Indian Public Sector Enterprises

The new policy of liberalization, privatization and globalization de-emphasized the role of the public sector in the nation's economy. Disinvestment is a process whereby the Government withdraws a portion or the total of its equity in public enterprises. Huge amount of public resources are blocked in several non-strategic PSEs giving meager return. Government has announced its policy that the main objective of disinvestment is to put national resources and assets to optimal use and, in particular, to unleash the productive potential inherent in our public sector enterprises. In order to expedite the process of disinvestment, the Government established a new full-fledged Ministry of Disinvestment. Disinvestment era, at the peak during NDA Government, came to halt with the installation of UPA Government at the centre. Under the pressure of the left parties, the new Government closed Ministry of Disinvestment and converted it into a Department under Ministry of Finance. The Indian economy faced an unprecedented macroeconomic crisis during 1990-91 mainly due to the large imbalances on the internal and external account. One of the objectives of liberalization has been to make Indian industries more efficient and globally competitive. Economic compulsions led to the adoption of new approach towards the public sector in the early nineties. The current policy on disinvestment is that the government is prepared to reduce its stake in the non-strategic SOEs even below 26 percent, if necessary. (Naib, Sudhir, 2004)

Table 1 : Investment and Number of Units of Public Sector Enterprises in Five Year Plans

Particulars	Total Investment Rs. Crore)	Enterprises (Numbers)
At the Commencement of the 1st Five Year Plan (1.4.1951)	29	5
At the Commencement of the 2nd Five Year Plan (1.4.1956)	81	21
At the Commencement of the 3rd Five Year Plan (1.4.1961)	948	47
At the end of 3rd Five Year Plan (31.3.1966)	2410	73

(contd.)

(contd.)

Particulars	Total Investment Rs. Crore)	Enterprises (Numbers)
At the Commencement of the 4th Five Year Plan (1.4.1969)	3897	84
At the Commencement of the 5th Five Year Plan (1.4.1974)	6237	122
At the end of 5th Five Year Plan (31.3.1979)	15534	169
At the Commencement of the 6th Five Year Plan (1.4.1980)	18150	179
At the Commencement of the 7th Five Year Plan (1.4.1985)	42673	215
At the end of 7th Five Year Plan (31.3.1990)	99329	244
At the Commencement of the 8th Five Year Plan (1.4.1992)	135445	246
At the end of 8th Five Year Plan (31.3.1997)	213610	242
At the end of 9th Five Year Plan (31.3.2002)	324614	240
At the end of 10th Five Year Plan (31.3.2007)	420771	245
At the end of first year of Eleventh Five Year Plan (31.3.2008)	455367	242
At the end of second year of Eleventh Five Year Plan (31.3.2009)	513532	246
At the end of third year of Eleventh Five Year Plan (31.3.2010)	580784	249
At the end of fourth year of Eleventh Five Year Plan (31.3.2011)	666848	248

Source : Public Sector Enterprises (PSEs) Survey, Various Issues

From the above Table 1 it has been observed that the total investment at the commencement of the First Five Year was Rs. 29 crore and the numbers of enterprises were 5 only. But the investment made in the public sector enterprises as on 31.03.2011 is Rs. 6,66,848 crore which is 14.81 percent more than the investment as on 31.03.2010. It is concluded from the above discussion that there is an increasing trend in the investment made during the different Five Year Plans.

Need and Scope of the Study

The process of liberalization and globalization is playing a vital role in the modern economic development of a nation. Both the developed and the developing economies have been initiating suitable reform measures in order to make their economies more vibrant and strategically competitive. The new policy of liberalization, privatization and globalization de-emphasized the role of the public sector in the nation's economy. It was argued that the removal of entry and licensing barriers would expose Indian firms to international competition and compel them to improve their efficiency and productivity and introduce new proceeds and products. The present study has been confined to study the financial and operating performance of selected Indian public sector enterprises, namely steel, minerals & metals, petroleum, fertilizers, chemical & pharmaceuticals, heavy engineering, medium and light engineering, transport equipment, transport services and telecommunication services. The present study has covered a period of 20 years which starts from the year 1991-92 to 2010-11.

Objectives of the Study

The following objectives have been visualized for the present study :

- to study the performance of Indian public sector enterprises after the inception of new economic policy.
- to study the financial and operating performance of the selected enterprises in terms of operating performance based on sales, investment and employment, financial strength, corporate liquidity and asset usage.

Hypothesis

To achieve these objectives the following hypothesis has been tested :

- there is no significant change in the financial and operating performance of the selected Indian public sector enterprises.

Research Methodology

The objectives of the present study have been studied through the use of secondary data. The secondary data has been collected from published reports of Public Enterprises Survey by Department of Public Enterprises and records of Government of India. The data drawn from various sources has been analyzed with the help of various accounting tools and techniques. Statistical test has also been applied in appropriate context.

Keeping in view the nature of study the data collected have been analyzed and interpreted with the help of the following methods :

1. Mathematical Methods
2. Statistical Methods
3. Accounting Tools.

1. Mathematical Methods

In the present study, the data collected have been analyzed with the help of mathematical methods such as simple average and percentage methods where needed.

2. Statistical Methods

Statistical methods provide indispensable tool for collecting, organizing, analyzing and interpreting data expressed in numerical terms. The statistical methods used in study are : Measure of Central Tendency or Averages Mean, Measure of Dispersion or Variability, Standard Deviation, Co-efficient of Variation, Test of Difference for Small Samples (t-test).

t-test

It has been used to test the difference between the mean of financial and operating performances based on different ratios of Indian public sector enterprises before and after disinvestment :

$$t = \frac{\bar{d}\sqrt{n}}{S}$$

The value of S is calculated as :

$$S = \sqrt{\frac{\Sigma(d-\bar{d})^2}{n-1}} \quad \text{or} \quad \sqrt{\frac{\Sigma d^2 - n(\bar{d})^2}{n-1}}$$

If the calculated value of t exceeds to t 0.01 percent, we say that the difference between various means is significant at 1 percent level, if it exceeds t 0.05 percent, the difference is significant at 1 & 5 percent level. If the calculated value of t is less than the table value at 5 percent and 1 percent level, we conclude that the difference between the two means is not significant and, hence, the sample might have been from a population having same means.

3. Accounting Tools

The accounting ratios that are used in the analysis of the present study are : Net Profit Ratio, Gross Profit Ratio, Operating Profit Ratio, Expenses Ratios, Return on Capital Employed, Return on Total Assets, Operating Performance Based on Employment, Capital Turnover Ratio, Fixed Assets Turnover Ratio, Working Capital Turnover Ratio, Stock Turnover Ratio, Inventory Conversion Period, Debtors Turnover Ratio, Average Collection Period, Current Ratio, Liquid Ratio, Debt Equity Ratio, Interest Coverage Ratio, Proprietary Ratio, and Solvency Ratio.

Sample Size and Sample Design

In order to test the hypothesis, sampling has been done in two stages. In the first stage sectors have been selected and in the second stage the units/enterprises have been selected from the sectors selected for the present study. Sampling in both the stages has been done from the different issues of Public Sector Enterprises (PSEs) and also from different Disinvestment Commission Reports.

Table 2 : Government Share after Disinvestment in the Public Sector Enterprises of India

Sector and Units	Percentage of Disinvestment	Percentage of Total Govt. Holding after Disinvestment
Enterprises Manufacturing/Producing Goods		
1. Steel		
(a) Steel Authority of India Ltd.	14.18	85.82
2. Minerals & Metals		
(a) Hindustan Copper Ltd.	1.24	98.76
(b) Hindustan Zinc Ltd.	24.08	75.92
(c) Kudermukh Iron & Ore Co. Ltd.	1.00	99.00
(d) National Aluminum Co. Ltd.	12.85	78.38*
(e) National Mineral Development Co.	1.62	96.36*
3. Petroleum		
(a) Bharat Petroleum Corporation Ltd.	33.80	66.20
(b) Bongaingaon Refinery and Petro-Chemical Ltd	25.54	74.46
(c) Cochin Refinery Ltd.	6.12	55.04*
(d) Gas Authority of India Ltd.	17.03	82.97
(e) Hindustan Petroleum Corporation Ltd.	48.94	51.06
(f) Indian Oil Corporation Ltd.	18.74	81.14*
(g) Madras Refineries Ltd.	16.92	53.80*
(h) Oil and Natural Gas Corporation	16.38	83.62
4. Fertilizers		
(a) Fertilizers & Chemicals Ltd.	1.70	97.30
(b) National Fertilizers Ltd.	2.35	97.65
(c) Rashtriya Chemicals & Fertilizers Ltd.	7.50	92.50
5. Chemical & Pharmaceuticals		
(a) Hindustan Organic Chemical Ltd.	41.39	58.61
(b) Indian Petrochemicals Corporation Ltd.	40.05	59.95
6. Heavy Engineering		
(a) Bharat Heavy Electrical Ltd.	32.28	67.72
7. Medium and Light Engineering		
(a) Bharat Electronics Ltd.	24.14	75.86
(b) Andrew Yule & Co. Ltd.	9.60	62.84*
(c) Hindustan Machine Tools Ltd.	8.44	91.56
(d) Indian Telephone Industries	22.98	76.67*
8. Transport Equipment		
(a) Bharat Earthmovers Ltd.	39.19	60.81
Enterprises Rendering Services		
9. Transport Services		
(a) Container Corporation of India Ltd.	36.92	63.08
(b) Dredging Corporation of India Ltd.	1.44	98.56
(c) Shipping Corporation of India Ltd.	19.88	80.12
10. Telecommunication Services		
(a) Mahanagar Telephone Nigam Ltd.	43.80	56.20
(b) Videsh Sanchar Nigam Ltd.	47.00	53.00

*The balance equity is held by state Governments/other collaborators

Results and Discussion

The present study examines the performance of Indian public sector within the framework of both macroeconomic stabilization and micro-structural change with special reference to its growth, development and contribution to the economic development of India after liberalization. It was argued that the removal of entry and licensing barriers would expose Indian firms to international competition and compel them to improve their efficiency and productivity and introduce new proceeds and products. Removal of import restrictions and currency transactions will enable them to import better quality materials, components and technology. In order to improve the performance of PSEs in a liberalized economy, the Government of India announced on 24th July 1991—as a part of the statement on Industrial Policy, a statement of public sector also.

Table 3 : Net Profit of Public Sector Enterprises in the Era of Liberalization

Sector	1st 10 Years (i.e. 1991-92 to 2000-01)			Last 10 Years (i.e. 2001-02 to 2010-11)			t-value	P
	Mean	S.D.	C.V.	Mean	S.D.	C.V.		
(A) Manufacturing Enterprises								
Steel	–604.8	1164.7	–192.6	5651.87	3852.03	68.16	4.91	.000*
Minerals & Metals	612.2	256.87	41.96	3832.1	2300.23	60.03	4.39	.000*
Coal & Mines	718.6	790.78	110.00	7365.9	3819.74	51.86	5.38	.000*
Power	2328.1	1451.00	62.33	10057.9	3373.09	33.54	6.65	.000*
Petroleum	6062.2	3211.4	52.97	18832.6	6173.22	32.78	5.80	.000*
Fertilizers	–1077.4	872.19	–80.95	–576.2	4001.98	–694.5	0.38	.703
Chemicals & Pharmaceuticals	72.00	285.06	395.9	–357.7	182.754	–51.09	–4.01	.001*
Heavy Engineering	–10.3	338.44	–3286.00	1759.8	1681.49	95.55	3.26	.004*
Medium and Light Engineering	–110.4	163.76	–148.3	–219.3	366.273	–167	–0.86	.402
Transport Equipment	–6.8	150.35	–2211.00	1577.6	1042.31	66.07	4.75	.000*
Consumer Goods	–560.2	181.54	–32.41	–355	362.704	–102.2	1.60	.127
Agro Based Industries	-8.1	11.328	–139.9	8.515	38.4649	451.7	1.31	.207
Textiles	–554.9	801.11	–144.4	961.1	3704.38	385.4	1.26	.222
Total (A)	**6563.7**	**3154.2**	**48.05**	**48602.1**	**17986.9**	**37.01**	**7.28**	**.000***
(B) Enterprises Producing Services								
Trading & Marketing	127.1	32.73	25.75	327.8	275.4	84.02	2.28	.034**
Transportation Services	274.8	306.35	111.5	60.6	2440	4026	–0.27	.786
Contract & Construction Services	–168.6	339.43	–201.3	–47.3	398.8	–843.1	0.73	.473
Industrial Development & Construction Services	407.5	256.54	62.95	794.6	292.4	36.79	3.14	.006*
Tourist Services	15.4	46.978	305.1	36.7	72.17	196.6	0.78	.444
Financial Services	764.6	423.73	55.42	3072.1	852.1	27.74	7.66	.000*
Telecommunication Services	1458.3	1019.59	69.92	4956.7	5942	119.9	1.83	.083
Sec. 25 Companies	39.8	24.99	62.81	55	59.41	108	0.74	.465
Total (B)	**2872.9**	**1861.44**	**64.79**	**9265.4**	**7354**	**79.37**	**2.66**	**.016****
Grand Total (A + B)	**9437.3**	**4881.78**	**51.73**	**57804.6**	**16346**	**28.28**	**8.99**	**.000***

* Significant at 0.01 level

** Significant at 0.05 level

Source: Public Sector Enterprises (PSEs) Survey, Various Issues

Table 4 : Financial and Operating Performance of Selected Indian Public Sector Enterprises

Sector	Pre-disinvestment Era			Post-disinvestment Era			t-value	P
	Mean	S.D.	C.V.	Mean	S.D.	C.V.		
Operating Performance Based on Sales								
Gross Profit Ratio	14.84	18.43	124.19	14.58	15.57	106.79	–0.18	.853
Net Profit Ratio	6.57	18.05	274.73	7.00	14.35	205.00	0.31	.751
Operating Profit Ratio	15.40	18.81	122.14	15.06	15.19	100.86	–0.23	.813
Material Cost/Net Sales	47.94	26.67	55.63	52.26	44.07	84.33	1.20	.230
Manpower Cost/Net Sales	9.81	8.94	91.13	11.56	10.24	88.58	2.02	.044**
R&D Expenditure/Net Sales	0.85	1.41	165.88	0.65	1.19	183.07	–1.44	.149
Excise Duty/Net Sales	9.62	11.20	116.42	10.02	8.03	80.14	0.43	.667
Operating Performance Based on Investment								
Return on Total Assets	9.48	6.26	66.03	10.46	8.90	85.09	1.43	.153
Return on Net Capital Employed	20.68	24.12	116.63	18.87	21.46	113.73	-0.93	.349
Operating Performance Based on Employment								
Net Profit Per Employee	1.44	298.36	20719.44	6.53	1291.33	19775.34	5.35	.000*
Gross Profit Per Employee	2.59	413.03	15947.1	1.03	1723.31	167311.70	–6.09	.000*
Net Sales Per Employee	2.15	3522.19	163822.8	7.93	12561.47	158404.40	6.19	.000*
Financial Strength								
Debt Equity Ratio	2.16	2.21	102.31	3.71	12.91	347.98	1.76	.078
Proprietary Ratio	40.41	18.23	45.11	43.30	21.41	53.13	–0.05	.954
Solvency Ratio	59.59	21.89	36.97	56.70	21.98	38.58	–1.19	.231
Fixed Assets to Net Worth	1.48	161.21	10892.57	1.59	627.46	39462.89	0.28	.777
Interest Coverage Ratio	22.43	180.52	804.82	3.96	5190.04	131061.60	–1.04	.295
Corporate Liquidity								
Current Ratio	2.33	3.32	142.49	1.97	.87	44.16	–1.96	.050**
Liquid Ratio	1.50	3.35	223.33	1.38	.82	59.42	–0.67	.502
Asset Usage								
Inventory Turnover Ratio	20.02	85.46	426.87	1.40	929.59	66399.29	–1.88	.060
Inventory Conversion Ratio	1.11	81.30	7324.32	77.57	60.00	77.35	5.78	.000*
Debtors Turnover Ratio	21.77	39.84	183.00	21.36	45.68	213.86	–0.11	.911
Average Collection Period	70.96	74.32	104.72	77.55	79.89	103.02	0.98	.325
Fixed Assets Turnover Ratio	2.29	2.27	99.13	2.83	2.33	82.33	2.70	.007*
Working Capital Turnover Ratio	8.56	24.79	289.60	19.30	410.11	2124.92	0.38	.703
Capital Turnover Ratio	1.82	196.52	10797.8	1.77	147.73	8346.33	–0.31	.756

* Significant at 0.01 level

** Significant at 0.05 level

Source : Public Sector Enterprises (PSE's) Survey, Various Issues

Table 5 : The Budget and Disinvestment Proceeds

(Rs. in Crore)

Years	Disinvestment	Amount	% of	Fiscal	Disinvestment	Internal	Disinvestment
1991-92	2,500	3,038	121.52	36,323	8.36	1,72,750	1.76
1992-93	3,500	1,913	54.66	40,173	4.76	1,99,100	0.96
1993-94	3,500	–	0	60,257	0	2,45,712	0
1994-95	4,000	4,843	121.07	57,704	8.39	2,66,467	1.82
1995-96	7,000	361	5.16	60,243	0.60	3,07,869	0.12
1996-97	5,000	380	7.60	66,937	0.57	3,44,476	0.11
1997-98	4,000	902	18.79	88,937	1.01	3,88,988	0.23
1998-99	5,000	5,371	107.42	1,13,349	4.74	4,59,696	1.17
1999-00	10,000	1,860	18.60	1,04,717	1.78	7,28,627	0.26
2000-01	10,000	1,871	18.71	1,18,816	1.58	8,03,698	0.23
2001-02	12,000	5,632	46.73	1,40,955	3.99	9,13,061	0.62
2002-03	12,000	3,348	27.90	1,45,072	2.31	10,20,689	0.32
2003-04	12,200	15,547	117.78	1,23,273	12.61	11,41,706	1.36
2004-05	4,000	2,684	67.10	1,25,202	2.14	12,75,971	0.21
2005-06	No Target Fixed	1,570	NA	1,46,435	1.07	13,89,758	0.11
2006-07	No Target Fixed	–	0	1,42,573	0	15,44,975	0
2007-08	No Target Fixed	4,181	NA	1,26,912	3.29	18,08,359	0.23
2008-09	No Target Fixed	-	0	3,36,992	0	20,28,549	0
2009-10	No Target Fixed	23,553	NA	4,12,307	5.71	23,37,682	1.01
2010-11	40,000	22,763	56.91	3,81,408	5.97	27,36,754	0.83
2011-12	40,000	1,145	2.86	4,12,817	0.28	31,10,618	0.04
Total	**1,74,700**	**1,00,962**	**57.79**	**32,41,399**	**3.12**	**2,32,25,505**	**0.43**

Source : Economic Survey Various Issues

*Note : *Fiscal deficit from 1999-2000 onward is based on changed system of account of made in the budget for 1999-2000. According to this, loans to states against state's share in the small saving collections are to be made from the especially created 'National Small Savings Fund' under the Public Account*

After studying the profitability of the Indian public sector enterprises in the form of net profit, it has been found that there is an improvement in the net profit of power sector, petroleum sector and transportation equipment sector. However, there are few sectors in manufacturing enterprises which are running at loss during the period under study. There is remarkable increase in the mean scores of their profit in financial services sector and telecommunication services sector of enterprises producing services. On the other hand, contract and construction services sector have been running at loss throughout the period under study. As a whole, a significant increase in the profitability of public sector enterprises has been recorded. As shown in the above Table, the disinvestment programme of the Government from 1991-92 to 2011-12 had targeted to raise a total of Rs. 1,74,700 crore, but the amount raised was only Rs. 1,00,962 crore, leading to an under-subscription of approximately 57.79 percent. There is, thus, a large gap between the amount planned to be raised and the amount actually raised. Except for the two years of disinvestment—firstly in 1991-92 and secondly in 1998-99—in no other year could the Government realize revenues greater than the targeted level of disinvestment. The Government of India raised Rs. 3,038 crore in 1991-92 against the target of Rs. 2,500 crore, and Rs. 5,371 crore in 1998-99 against the target of Rs. 5,000 crore.

Table 4 reveals that there is a decline in the gross profit and operating profit of Indian public sector enterprises. It shows that the management of enterprises failed in controlling their various expenditures. There is also a decline in the ratio of return on net capital employed. The change is found significant at 5 percent level of significance only in the case of material cost to net sales ratio. There is a remarkable improvement in the contribution of the employees in the net profit and net sales of the public sector enterprises. On applying t-test, it is found that the change is significant at 1 percent level of significance in the ratios of net profit per employee, gross profit per employee and net sales per employee. As far as their financial strength is concerned, it has

(contd. to page 993)

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(contd. from page 972)

been found that the management of the firms is using more outsiders funds as compared to the internal funds and they are unable in meeting their current obligation in time. For the sound long-term solvency and liquidity position of the enterprises it should not be continued in the future. With respect to the asset usage of Indian public sector enterprises, it has been found that there is a decline in the mean scores of inventory turnover, debtors turnover and capital turnover ratios. It shows that the management of the firms failed in efficiently management of its debtors and inventory. In other words, it can be said that the management of the enterprises failed in the conversion of their stock into sales and timely collection of their debts. The decline in the employment in the public sector may be due to the policy of liberalization in the Indian public sector and various policies adopted by Indian Government like Voluntarily Retirement Scheme (VRS) and others to reduce the number of employees in public sector.

The exports of public sector enterprises have shown an increase after introduction of the liberalization in India. The contribution of public sector units in the form of dividends, corporate taxes, excise duty, customs and other duties has increased manifold which clearly reveals the positive impact of liberalization process on the Indian economy. This positive impact will definitely help the nation in its development programmes for the welfare of the masses. It leads to conclude that apart from generation of internal resources, these enterprises have been making substantial contribution to augment the resources of the Central Government through payment of dividends, corporate taxes, excise duty—customs duty and other duties, thereby helping in mobilization of funds for financing the needs for planned development of the country.

Conclusion

Public Sector Enterprises have acted as an instrument for self-reliant economic growth of India in order to develop agriculture and industry, diversify public economy, and overcome economic backward-ness. Public enterprises occupy an important place in the national economies of most countries of the world, irrespective of their political orientation. Public sector reforms in India are the need of the hour. It is apparently quite evident that the initiation of liberalization in Indian public sector enterprises has become successful. The recent changes in the policy on public sector are necessitated due to changing economic environment throughout the world which favour liberalization of economies. The new policy envisages the role of PSEs mainly in strategic areas, high-tech and infrastructural sectors. It was a good decision in the early phase of the new India after independence that the country should have a mixed economy where public and private sectors play their specified goals in the development of the national economy.

India has tremendous natural resources, great resource of manpower—both in quality and number, and these advantages together with grit, determination and integrity should be able to make India into a great society. There should be more provision for the research and development programmes by Indian PSEs in order to compete in this global competition and also to improve their efficiency in financial control, cost control, and quality control. Public sector should be continued in areas where their involvement is highly appropriate and will provide greater degree of autonomy. Disinvestment programme should be so executed so as to encourage autonomy in management with accountability, broad-based ownership and improve the competition. The proceeds from disinvestment should be utilized partly for restructuring PSEs which can become viable, or for increasing the intrinsic share values, partly for meeting the requirement of adequate funds for voluntary retirement scheme where downsizing labour fund is necessary, and yet another part is to be used for investment in the social sectors like education, health, water supply, and the like. ❐

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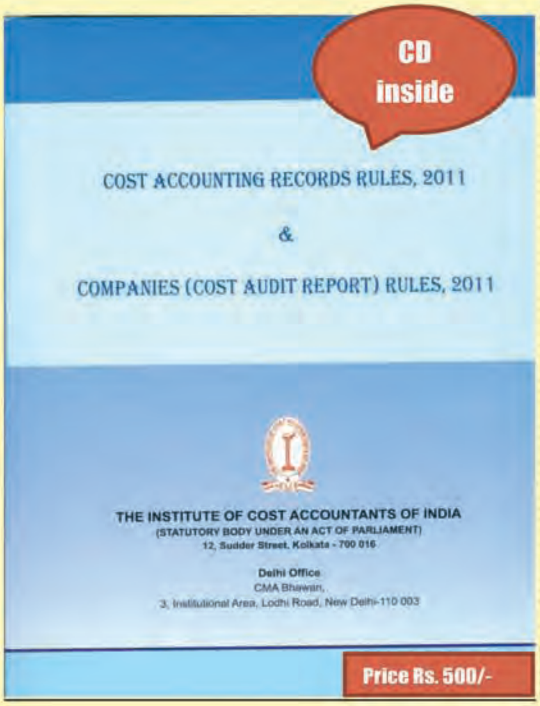

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9th National Award for Excellence in Cost Management–2011

Dr. M. Veerappa Moily, Hon'ble Union Minister for Corporate Affairs presented 9th National Award for Excellence in Cost Management in a function orgnaised by The Institute of Cost Accountants of India on 17th July, 2012 at Vigyan Bhavan, New Delhi. Mr. Naved Masood, IAS, Secretary Ministry of Corporate Affairs was also present and gave a special address. The Institute organized the award ceremony with an objective to felicitate and recognize corporate organizations in their journey towards excellence in cost management.

Background

The Institute has instituted National Award for Excellence in Cost Management in the year 2003 to recognize the qualitative cost management practices adopted by the industry and encourage corporate sector to get due national and global recognition for the success of Cost Management initiatives, they follow. The participation of Indian industry in the National Award indicates positive efforts undertaken by the industry towards cost management. The Institute is encouraged with wider application of Cost Management tools and adoption of different Cost Management Strategies across various sectors. It is needless to mention that the wider coverage of ICWAI National Award in the media has uplifted the image of the Awardees.

This award has synergized the entrepreneurial abilities of the industry with intellectual prowess of our professionals to result in cost management excellence so that the performances of participant companies have improved tremendously over the years. The propagation of Cost management techniques has followed the same path as by Quality Movement. Just as ''Quality Control'' has yielded way to ''Quality Assurance'', ''Cost Control'' should also transform to ''Cost Assurance''.

Objectives of the Award

The aim of the award is to promote the culture of Cost Management practices in wider scale in Indian Corporate sector by :

- Recognizing Leadership efforts of Cost Management Techniques
- Educating other industry members on innovative practices and their functioning
- Encouraging the organizations in emphasizing their focused areas of Cost Management more vigorously
- Strengthening the professional expertise in the areas of Cost Management
- Providing support service in implementation of new tools and techniques of cost management
- Educating the other members of Indian industry with the example of results achieved by the awardees.
- Undertaking research on effective Cost Management practices being followed in different industries

Selection Methodology

The methodology followed to decide the winner of award is based on the questionnaire designed to obtain information on cost management practices and performance of the companies involved in manufacturing or service operation. A Screening committee formed by the Institute evaluated the questionnaire submitted by the participating organisation/unit. The Screening Committee set some standard criteria to limit the subjective in the evaluation process as much as possible. More marks are given on concrete steps taken up by the companies towards Cost Management.

Screening Committee for the Award

To undertake the proper work and monitoring the activities relating to the Award, the Institute constituted a Screening Committee with the following members with the responsibilities of designing the Questionnaire, evaluating the filled-in questionnaires and short-listing the companies for award :

1.	Shri Rajeev Mehrotra, Managing Director, RITES Limited	–	Chairman
2.	Shri R. C. Gupta, General Manager, GAIL	–	Member
3.	Shri Suraj Prakash, Addl. General Manager BHEL	–	Member
4.	Shri M.C. Bansal, General Manager (Finance)	–	
5.	Shri Subhash Agrawal, General Manager (Finance), Everest Industries Ltd.	–	Member
6.	Shri Shri Gurdeep Singh, Practicing Cost Accountant	–	Member
7.	Shri K.S. Berk, Practicing Cost Accountant	–	Member
8.	Ms. R. Parvathy, Practicing Cost Accountant	–	Member
9.	Shri Sanjay Kumar Garg, Practicing Cost Accountant	–	Member
10.	Shri Rakesh Singh, Vice President, Institute of Cost Accountants of India	–	Convenor

Six meetings of Screening Committee of 9th National Award for Excellence in Cost Management were held. Screening Committee made the following major changes in the questionnaire :

- Companies were permitted to participate in the category of company as a whole and as individual units.
- Different industries have different Key Performance Indicators (KPI) relating to cost management, hence companies were asked to furnish three KPIs relating to them
- Name of Cost Management Techniques were to be furnished instead of just ticking
- Questions relating to maintenance of Cost Accounting Records and Cost Audit were asked
- Weighted Average cost of borrowings and steps taken to optimise the borrowing cost were asked.
- Number of Audit committee meetings held during the year and the number of meetings attended by a Cost auditor
- Total Training Cost to Total Employee Cost asked
- Expenditure on CSR was called for

Selection of Recipients of Award by the Jury

A Jury was constituted with the following members for selection of recipients of Award :

1.	Justice V. N. Khare, Former Chief Justice of India	Chairman
2.	Shri Arvind K Awasthi,Deputy Comptroller and Auditor General	Member
3.	Mr. R. Bandyopadhyay, IAS (Retd.), Former Secretary, Ministry of Corporate Affairs	Member
4.	Mr. D.C.Bajaj, Addl. Chief Adviser (Cost), Ministry of Finance	Member
5.	Shri R. K. Jain, IAS, Joint Secretary	Member
6.	Shri B.B.Goyal, Adviser (Cost), Ministry of Corporate Affairs	Member
7.	Mr. Muhammad Rafi, President, South Asian Federation of Accountants (SAFA)	Member
8.	Mr. C. Chandrasekhar, IPS (Retd.)	Member
9.	Dr. H.P.Kumar, CMD, NSIC Ltd	Member
10.	Shri G. Srinivasan, CMD, United India Insurance Co. Ltd.	Member
11.	Shri R. S. Sharma, Former CMD, ONGC Ltd.	Member
12.	Mr. M.Gopalakrishnan, Institute of Cost Accountants of India	Member
13.	Dr. Asish Bhattacharyya, Advisor, Institute of Cost Accountants of India	Member

The Jury of 9th National Award for Excellence in Cost Management-2011 has finalized the following of awards under different categories in its meeting held on 6th July, 2012 at New Delhi.

	Category I : Private—Manufacturing: Organisation (Large)	
1	Videocon Industries Limited	First
2	LG Electronics India Pvt. Ltd.	Second
3	Amara Raja Batteries Ltd	Third
	Category II : Private-Manufacturing : Organisation (Medium)	
4	Whirlpool of India Limited	First
5	WABCO India Ltd	Second
6	PME Power Solutions (India) Ltd.	Third
	Category III : Private-Manufacturing: Units (Large)	
7	TML Drivelines Ltd—Unit A	First
	Category IV : Private-Manufacturing: Units (Medium)	
8	Everest Industries Ltd—ESBS	First
9	J.K. Cement Limited—J. K. White Cement Work	Second
	Category V : Public Manufacturing: Organisation (Large)	
10	Rashtriya Chemicals & Fertilizers Limited	First
	Category VI : Public-Manufacturing: Unit (Large)	

(contd.)

(contd.)

11	Oil and Natural Gas Corporation Limited, Karaikal	First
12	Bharat Heavy Electricals Limited-HEEP, Haridwar	Second
13	Oil and Natural Gas Corporation Limited, Western Offshore	Third
	Category VII : Public-Manufacturing: Unit (Medium)	
14	Bharat Heavy Electricals Limited, Jhansi	First
15	Bharat Heavy Electricals Limited, EPD Bangalore	Second
	Category VIII : Private-Service Sector (Large)	
16	ICICI Prudential Life Insurance Company Limited	First
	Category IX : Private-Service Sector (Medium)	
17	L & T Chiyoda Limited	First
	Category X : Public-Service Sector (Large)	
18	Bharat Heavy Electricals Limited, Power Sector- Southern Region	First
19	Engineers India Limited	Second
20	Gujarat Energy Transmission Corporation Limited	Third
	Category XI : Public-Service Sector (Medium)	
21	GAIL (India) Ltd- JLPL, Jaipur	First
22	GAIL (India) Ltd, Vizag-Secundrabad LPG pipeline	Second
23	RITES Limited	Third

Cancellation of Registration Under Regulation 25(1) of CWA Act, 1959
Registration Numbers Cancelled for December-2012 Examination

Upto

ERS/004507

NRS/007234 (except 6542-6800, 6805-6807, 6809, 7017-7100)

SRS/014025, WRS/009869, RSW/079278, RAF/005871

Re-Registration

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June 2005) as above but desire to take the Institute's Examination in December-2012 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE INSTITUTE OF COST ACCOUNTANTS OF INDIA, payable at KOLKATA.

Date : 19th June, 2012

R. N. Pal

Sr. Director of Studies

Advanced Certificate Courses by the Directorate of Advanced Studies

The Directorate of Advanced Studies of the Institute announces the following three advanced certificate courses :

- Course on Business Valuation and Corporate Restructuring;
- Course on Treasury and Financial Risk Management; and
- Course on Enterprise Performance Management and Appraisal System

These courses will be delivered at the proficiency level to develop expert knowledge. The objective is to bridge the gap between the capabilities needed by the industry and regulators and capabilities available in the market. On successful completion, participants will develop capabilities to deliver professional services in respective areas. The courses will be open to members of the Institute of Cost Accountants of India and others who have relevant experience.

On successful completion of a course, the participant will be awarded a certificate.

The information relating to the eligibility criteria, course fee, course duration, course contents and other pertinent details for each of these courses is available on the Institute's website.

The first batch for the Course on Enterprise Performance Management and Appraisal System is already running at Hyderabad. The second batch of the course alongwith the other two courses are scheduled to commence in January' 2013.

Registrations and nominations are invited for all the three courses and the last date for registration is **December 3, 2012**.

Ask for a brochure by mailing to: advstudies@icwai.org, advstudies.kimi@icwai.org

Guidance Note on Maintenance of Cost Accounting Records

Highlights of Guidance Note:

- Thorough and comprehensive after the series of notifications and circulars issued by the Ministry of Corporate Affairs in the last one year.
- Provides guidance on Accounting and treatment of all elements of Costs in accordance with GACAP & CAS issued by the Institute
- Provides Illustrative list of cost records to be maintained by the companies
- Provides practical approach towards cost build-up for a Production/ Manufacturing Industry
- Appendices to the Guidance Note contain the Notifications, Master Circulars and General Circulars related to the Cost Accounting Records Rules, issued by the Ministry of Corporate Affairs till 4th June, 2012.

Issued By:

The Professional Development Committee of
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Headquarters:
CMA Bhawan
12, Sudder Street, Kolkata- 700016
Website: www.icwai/org

Delhi Office:
CMA Bhawan 3, Institutional Area, Lodhi Road, New Delhi- 110003

Price Rs. 250/-

For Purchase:

The publication can be purchased directly from the Institute's Head Quarters/Delhi Office or Regional Councils. To order by post, please send a demand draft of Rs. 300/- (Cost of publication + Rs. 50/- towards courier charges) to CMA. J.K. Budhiraja, Director (Professional Development), email: pd.budhiraja@icwai.org in favour of "The Institute of Cost Accountants of India", payable at New Delhi or through ECS payment:

Details of ECS Payment: State Bank of India, Lodhi Road Branch, New Delhi-110003

Current Account No.: 30678404793

MICR Code: 110002493, IFSC Code: SBIN0060321.

The Institute of Cost Accountants of India

(Continuing Education Programme Directorate)

Guidelines for Mandatory Training for All Members of ICAI Under Continuing Education Programme

Modification to Existing Scheme

To meet the requirement of professional skills in the current changing dynamic economic scenario, Cost Accountants in practice and service (members of ICAI) should equip themselves with the new skills and concepts to meet the challenges and render yeomen's services to trade, commerce and industry. Therefore, the existing scheme for mandatory training to the members in practice and service under Continuing Education Programme (CEP) has been revised. The basic features of the revised scheme are :

For Members in Practice

(i) The member should undergo minimum mandatory training of 10 hours per year w.e.f. 2009-10.(1st April to 31st March every year)

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

For Members in Service

(iii) The member should undergo minimum mandatory training of 6 hours per year w.e.f. 2011-12. (1st April to 31st March every year)

(iv) The certificate of attendance for training will have to be enclosed with the application for renewal of membership.

The attendance of members in National Cost Convention, Regional Cost Convention, Seminars/Workshops conducted by the Institute/Regional Councils/Chapters (both paid/unpaid programme) will be reckoned against the requirement of mandatory training period under this scheme.

The requirement specified above will not apply to a member who has attained the age of 65 years.

The basis of computation of programme credit hours will be as follows :

Hours of Training Programme attended by the members	Programme Credit (Hours)
Less than 1 hour	Nil
I hour and more and upto 2 hours	1
More than 2 hours and upto 4 hours in a single day	2
Beyond 4 hours in a single day	4
Programmes for more than 1 day and upto 2 days	6
Programme spanning beyond 2 days	10

For this purpose, the participation of members in the following programmes/courses/ publications shall also be recognized :

1. Courses of the Universities recognised by the UGC/ AICTE approved Institutions

The members who have successfully completed any post graduate course related to commerce, economics and taxation of the UGC recognized University/ AICTE approved Institution will be awarded CEP credit of 5 hrs. for each semester based on submission of the pass certificate.

2. Service as a Speaker or Discussion Leader

Service as a lecturer or teacher in a program or seminar offered by business, professional associations and college or university professional education centres may be counted for continuing education credit as follows:

(1) Continuing education hours equal to twice the number of hours of presentation will be granted the first time the program is offered.

(2) Credit will not be granted for subsequent offerings unless significant additional preparation is necessary. For such repeat offerings credit will be granted only for the actual hours of presentation and only once each year.

The CEP credit will be given to the member only after getting the authenticated proof in this regard.

3. Service as a college faculty of approved Universities/Faculty of AICTE approved Institution/ ICAI Faculty

College courses or ICAI Course earn 3 CEP credits for each paper taught in a semester or stage.

4. Technical Materials Submitted for Publication

Technical articles, monographs, or books published are eligible for continuing education credit subject to they are in an International Standard Serial Number (ISSN)/ International Standard Book Number (ISBN) Published articles containing technical accounting and financial management material can earn a maximum of six hours each. Books and monographs can earn a maximum of 20 hours each only for the first time of publication. Subsequent publication of the same title will not be given CEP Hrs. unless there is a vast change in the new publication. The Institute will assign specific CEP hrs. on receipt of a copy of the publication.

5. (a) The members who are holding General manager or equivalent and above position working in an organization with turnover of Rs. 500 crores and also investment of more than Rs.100 crores in fixed assets will be exempt from CEP requirement.

(b) The training imparted by the organizations to their employees in their in-house training Institute, having turnover of Rs.100 crores or above per annum, are to be considered for calculation of CEP hours subject to :

(i) The training programme should be on the subject relating to costing/accounts/finance/taxation/ project finance/treasury management.

(ii) The organization shall submit their calendar of programmes to the Institute.

(iii) The organization shall submit list of Institute members with their name & membership number, details of programme attended & duration to the Institute after programme is completed.

(iv) Certificate of attendance of the programme shall be given to their employee with his membership number.

(c) The organization having turnover of Rs.100 crores or above, which nominates their employees for outside training programme from reputed Institutions on the subject mentioned Sl. No. 5(b)(i) shall also be considered for CEP hours provided they produce the certificate in this regard. Reputed Institutes include IIM, IIT, National Productivity Council/State Productivity Councils and others as may be approved by the Council and against reciprocal arrangement with sister professional Institute i.e. ICSI

6. Articles Published in Management Accountant

A member whose article is published in 'Management Accountant' only will be eligible for CEP hours as follows:

(a) Two hrs. for up-to 2 pages

(b) Four hrs. for 3-5 pages

(c) Six hrs. for above 5 pages

7. Members staying abroad can meet the CEP requirements by adopting any one or more of the following modus operandi

(a) Attend CEP programmes organized by the CEP Department of the Institute, Regional Councils and Chapters – (visit www.icwai.org)

(b) Attend CEP Programmes organized only by IFAC/CAPA/ SAFA Member Bodies abroad. For this members has to submit the following :

(i) Self certification letter by the members regarding the programme attended by them for approval of CEP Hrs.

(ii) Membership number and name as per Institute's records.

(c) Members staying abroad can meet the CEP requirements by attending the programmes organized by the Overseas centres of the Institute in addition to the programmes organized by the Institute and its Regions and Chapters.

8. The Council approved the following guidelines

(a) The members who reside outside India for a part of the year may be exempted from credit hours requirement for the same year on submission of valid documents in support of the same.

(b) The members who are victimized by polio or accident or physically handicapped may be exempted from fulfilling the requirement of CEP hours on submission of valid documents in support of the same.

However, no such exemption/relaxation as mentioned in clauses (a) & (c) above would be given to a member who obtains membership of ICAI in accordance with the MOU entered into between IMA & ICAI.

9. A member who obtains membership in accordance with the MOU entered into between IMA,USA & The Institute of Cost Accountants of India (ICAI), should obtain minimum mandatory training of 30 hours per year as per the guidelines of IMA, USA.

10. A member who obtains membership in accordance with the MOU entered into between IMA, USA & The Institute of Cost Accountants of India (ICAI) and is over 55 years of age and retired from the profession is exempt from the CEP requirements.

11. A member who obtains membership in accordance with the MOU entered into between IPA, Australia & The Institute of Cost Accountants of India (ICAI) and is over 60 years of age and retired from the profession is exempt from the CEP requirements.

12. Attendance of the Members in the Meetings/Seminars/Workshops by SAFA/CAPA/IFAC or any other bodies where ICAI is a member will be reckoned against the requirement of mandatory training period under this scheme.

13. Guidelines for attending international seminars by the President, Vice President and Council Members

(i) Four CEP Hours for attending one full day Programme/ Seminar/Workshop/Event

(ii) Six CEP hours for 2 days Programme/Seminars/Workshops/Event

(iii) Ten CEP hours for three days Programme/Seminar/ Workshop/Event

14. Guidelines for Chairing Programme/ Seminar/ Workshop/ Event by the President, Vice President and CCMs chairman and members of the Regional Council

(i) One CEP Hours for up to 2 hrs. Programme/ Seminar/ Workshop/ Event

(ii) Two CEP Hrs for more than 2 hrs. - up to 4 hrs. Programme/ Seminar/Workshop/Event

(iii) Four CEP Hours for more than four hrs. Programme/ Seminar/ Workshop/ Event

15. The Members attending the webinar /seminars/workshops/training programmes get two CEP hrs. for every three hrs. webinar/ seminars/workshops/training programmes organised by the Institute, provided they have to attend the webinar/seminar/workshop/training programme for full three hrs(Details to be announced soon).

16. The programmes organized by the CMA support Centres being established by the Institute at different locations are eligible to CEP hrs. as per the norms of the CEP guidelines.

17. The members attending the approved CMA study circles programmes being formed at different locations are eligible to the CEP hours as per the norms of the CEP Guidelines.

18. Members answering five questions successfully out of ten questions of each of the articles published in the Management Accountant on monthly basis will get one CEP Hour for every article(Details to be announced soon).

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(statutory body under an Act of Parliament)

MANAGEMENT DEVELOPMENT PROGRAMMES 2012-13

DURATION	TOPIC	VENUE	FEE (RS.) NON – RESIDENTIAL	FEE (RS.) RESIDENTIAL SINGLE ROOM BASIS
AUGUST, 2012				
06-09	Contracts and their Management	Portblair	-	38000*
06-09	Emerging Issues in Direct and Indirect Taxation	Portblair	-	38000*
22-26	Certificate Course on IFRS and Converged Indian Accounting Standards	Hyderabad	25000*	
28-31	Basic Financial Skills for Non Finance Executives and Engineers	Hyderabad		35000*
28-29	Performance reporting- A Way forward in Corporate Governance	Hyderabad	8000*	
SEPTEMBER, 2012				
11-14	Risk Based Internal Audit and corporate Governance	Pondicherry	-	35000*
11-14	Issues in Direct Taxation- Advance Tax, TDS and Tax Planning	Pondicherry		35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	New Delhi	25000*	
OCTOBER, 2012				
09-12	Recent Trends in Corporate Reporting and corporate Finance including IFRS	Vayalar, (Backwater) Kerala	-	38000*
15-18	Emerging Issues in Management of Taxation	Goa	-	35000*
15-18	Activity Based Costing and Management	Goa	-	35000*
NOVEMBER, 2012				
20-23	Basic Financial Skills for Non Finance Executives and Engineers	Mysore		35000*
29 Nov. – Dec.8	International Programme on `Strategic Financial Management'	Singapore, Kualalumpur & Bangkok	-	250000*
DECEMBER, 2012				
11-14	Recent Trends in Financial Management	Amritsar		35000*
18-21	Contracts and their Management	Shirdi	-	35000*
18-21	Emerging Issues in Direct and Indirect Taxation	Shirdi	-	35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	Mumbai	25000*	-
JANUARY, 2013				
02-04	Costing for Engineers	Chennai	15000*	40000*
08-12	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Hyderabad	-	35000*
08-12	Advance Tax, TDS and Tax Planning	Hyderabad	-	35000*
FEBRUARY, 2013				
19-22	Risk Based Internal Audit for Effective Management Control	Puri	-	35000*
19-22	Emerging Issues in Management of Taxation	Puri	-	35000*

Note :- *Plus 12.36% Service Tax.

For Non-Residential Programmes - Fee includes course fee, course material, lunch, tea/coffee etc.
For Residential Programmes - Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.
CEP Credit Hours - (For 1 Day Prog. - 4 Hours) (For 2 Days Prpg. - 6 Hours) (For 3 Days & more Prog.-10 Hours)
For Kind Information:
For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programmes without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programmes, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
For residential programmes normally the first day check-in is at 12.00 noon and last day check-out is at 12.00noon
The Payment of the Fee is to be made by Cheque/DD in favour of 'The Institute of Cost Accountants of India' payable at New Delhi.
Details for ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi-110003
Current A/c No. 30678404793 MICR Code : 110002493 IFCS Code : SBIN0060321

The Institute of Cost Accountants of India

12, Sudder Street, Kolkata - 700 016

28th May, 2012

For Attention of Members
Election Reforms Committee

The members of the Institute are kindly aware that the Election to the 18th Council of the Institute of Cost Accountants of India were held in 2011 in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 read with the Cost and Works Accountants Act, 1959 and the Cost and Works Accountants Regulations, 1959.

During the course of Elections, it was noted that the provisions of the Cost and Works Accountants (Election to the Council) Rules, 2006 are needed to be examined for reforms in the Election process.

Accordingly, the Council of the Institute at its 272nd Meeting held on 22nd January, 2012 considered the matter and constituted the Elections Reforms Committee comprising of the following members for the purpose of streamlining the process of conduct of Council elections and matters arising thereform :

1. Shri P. V. Bhattad, Chairman
2. Dr. P.V.S. Jagan Mohan Rao, Member
3. Shri T.C.A. Srinivasa Prasad, Member
4. Shri Sanjay Gupta, Member

Shri Kaushik Banerjee (Director & Joint Secretary) — Secretary

It was further decided that the Committee will invite suggestions from members of the Institute for proposing amendments to the Cost and Works Accountants (Election to the Council) Rules, 2006 (uploaded on our website www.icwai.org), fixing a time limit of six months. After receipt of the suggestions, the Committee will ascertain the various amendments that are needed to be made in the Election Rules for smooth conduct of Institute's Elections and place the same before the Council for recommending the amendments to the Central Government.

Accordingly, you are requested to send your valuable suggestions/comments on the Cost and Works Accountants (Election to the Council) Rules, 2006 for consideration of the Committee on or before **27th November, 2012** :

(i) by post addressed to Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India, 12 Sudder Street, Kolkata - 700 016 superscribing on the envelope "SUGGESTIONS FOR ELECTION REFORMS" and/or

(ii) on e-mail id of Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India : addlsecy.kolkata@icwai.org with subject "SUGGESTIONS FOR ELECTION REFORMS".

REGIONS & CHAPTERS NEWS

WIRC

Surat South Gujarat Chapter of Cost Accountants (SSSCA)

The Bharuch Ankleshwar facilitation Centre of SSGCCA, organized a full day Seminar on Service Tax at Hotel Lord Plaza, Ankleshwar on 10.07.2012 on recent Changes in Service Tax Negative list. Inaugurating the seminar, the Chief Guest, Shri Ajay Saxena, Commissioner of Central Excise, Surat-II appreciated the idea of conducting the seminar to understand and implement the changes in service tax which has come in to effect from July 2012. CMA Satyanarayan Mundra, Vice chairman of the Chapter in his welcome speech gave the outline of various activities conducted by the Chapter and Facilitation centre. CMA Ashok Nawal, MD of BIZSOL India (P) Ltd and an expert in Indirect Tax was the faculty for the seminar. He covered the relevant aspects of negative list, declared Services, Exempted Services, and Place of Provision of Service etc. This was followed by question answer session which was very interactive wherein the participants clarified whatever little doubts they had.

The programme was coordinated by CMA R.K.Rathi. CMA Shailendra Saxena and CMA Rajesh Makwana proposed vote of thanks. The program was well attended by more than 175 participants from Bharuch, Dahej, Ankleshwar, Baroda, Surat and Mumbai.

WIRC of the Institute organized two Days Residential programme at Lonavala on 14.07.12 and 15.07.12. CMA Ashish Thatte, Hon. Secretary, WIRC welcomed the participants.

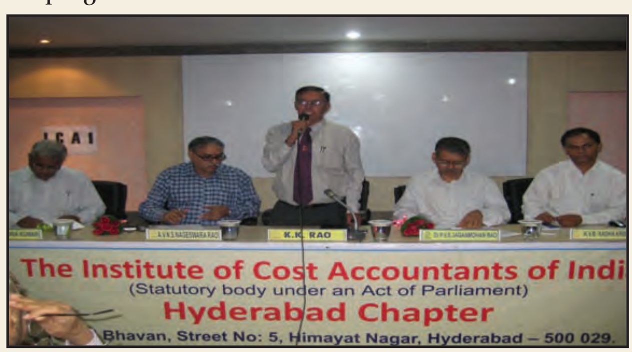
The Key note address was delivered by CMA Dhananjay Joshi, past President of our Institute. CMA Vijay Joshi, Chairman, WIRC briefed the members about the seminar and the current activities of Regional Council. CMA Neeraj Joshi, Treasurer, WIRC briefed about the theme of the seminar. CMA Dhananjay Joshi, CMA Amit Apte, Council Member, CMA V.S. Datey, Chairman, Nashik Chapter and CMA Ashok Nawal, past Chairman, WIRC were the speakers. They spoke on current issues relating to Cost Accounting Standards, Draft Product Group Classification and Indirect Taxation.

The programme ended with a vote of thanks proposed by CMA Shrenik Shah, Vice Chairman, WIRC.

SIRC

Hyderabad Chapter of Cost Accountants (HCCA)

A programme was organized by HCCA on 'Strategies for Cost Audit' at CMA Bhavan, Himayatnagar, Hyderabad. CMA Dr P.V.S. Jangan Mohan Rao, Council Member and CMA A.V.N.S. Nageswara Rao, Practising Cost Accountant & past Chairman, SIRC shared their views and information on the subject matter. CMA K. K. Rao, CMA K.V.B. Radha Krishna, CMA S. Nagendra Kumar, Chairman, Practitioners' Forum and about 70 other members and students attended the programme.



Hyderabad Chapter of Cost Accountants (HCCA) in association with The Institute of Chartered Accountants of India, Federation of A P Chambers of Commerce and Industry and Central Board of Excise & Customs held a seminar on 'Impact of Budgetary Changes—Taxation of Services' on 25.06.12 at 11.00 am at KLN Prasad Auditorium, FAPCCI.

Ms. Sheila Sangwan, IRS, Member—Service Tax, CBEC, Shri J. M. Kennedy, IRS, Director, TRU, New Delhi and Shri Shashi Bhusan Singh, IRS, Chief Commissioner of Customs, Central Excise & Service Tax, Hyderabad Zone highlighted the impact of budgetary changes. About 300 members both from Costing Fraternity and other professions participated in this programme.

EIRC

Cuttack-Bhubaneswar Chapter of Cost Accountants (CBCCA)

The CBCCA organized the first 'Investor Awareness Programme' for the year 2012-13 at its premises on 10.06.12 at 6.00 P.M. The theme of the technical session was 'Rupee Devaluation and Its Impact on Foreign Exchange & Capital Market'. Shri Praveen Gupta, CGM, State Bank of India. LHO Bhubaneswar was the Chief Guest who inaugurated the programme and spoke about the role of banks in a regulated market. CMA. Debaraj Biswal of Bhubaneswar Stock Exchange, was the Guest of Honour and addressed the role of Stock Exchanges, SEBI, Ministry of Corporate Affairs and other statutory bodies. CMA K.C.Samal, Executive Director (Finance), NALCO Ltd. was the resource person and he deliberated on 'Effect of Foreign Exchange in Capital Market'.

CMA S.K.Sahu, Chairman, CBCCA welcomed and introduced the Guests. CMA M.R.Lenka,Chairman, PD Committee deliberated the Key Note address and introduced the topics. CMA S.B.Samal, Secretary of the Chapter extended vote of thanks.

On this occasion, the Chapter organized a felicitation programme to two of their Senior Members i.e. CMA Santosh Kumar Sahu, and CMA Krushna Chandra Samal who have recently taken over as Director (Finance) in OHPC Ltd and Executive Director (Finance) in NALCO Ltd. respectively. CMA S.K.Sahu, Chairman of the Chapter coordinated the felicitation programme.

South Odisha Chapter of Cost Accountants (SOCCA)

Evening talk on 'Limited Liability Partnership Pros & Cons' was conducted on 30.06.2012 at 6:00 P.M by South Odisha Chapter, Berhampur. About 150 comprising members, faculties, students, attended the programme.

CMA Cheruvu Venkata Ramana, Chairman, SOCCA, CMA N.C. Kar, Secretary, CMA Shiba Prasad Padhi, RCM of EIRC Dr. B.V.H.P. Sarma, an advocate of eminence of Ganjam Bar Association and C.A Sudhansu Sekhara Mahapatra were the key speakers.

Sri N.C. Kar Secretary discussed about the concept and the history of LLP explaining its origin and its prevalence in countries like America, UK & Japan and later came into existence in India from 2008. He discussed briefly about the incorporation; Membership and Designated Members etc. Shri S.S. Mahapatra spoke about the history of the Act before it came to India. He distinguished between the traditional Partnership Act 1932 and Companies Act 1956 with that of LLP 2008. Dr. B.V.H.B Sarma, senior advocate talked about the genus of LLP. CMA Shiba Prasad Padhi discussed very lucidly the subject from the stand point of students. He explained about the attributes required to form LLP.

The vote of thanks was given by CMA Rabi Kumar Sahu, Treasurer of the Chapter. At the outset the guests were honored with bouquets and then with mementos.

NIRC

Jaipur Chapter of Cost Accountants (JCCA)

JCCA organized a seminar on XBRL, IFRS & TDS on 30.06.12

In the first session key speaker was Shri Avdhesh Khandelwal, a well known Chartered Accountant who explained the fundamentals of the XBRL (Extensible Business Reporting Language) and emphasized how it is helpful for the transparency, comparability and uniformity in Financial statements. He also gave valuable insights on impact and challenges of convergence to IFRS for the Indian Industry.

In the Second session, the Key Speaker was Shri P.C. Parwal, a renowned Chartered Accountant who explained in detail the various provisions of TDS and TCS and the recent amendment thereof. Both the sessions were very interactive.

In the beginning of the Seminar Dr. Ashok Kumar Jain, Chairman of Jaipur Chapter welcomed both the speakers and all the participants. The seminar was attended by large number of members. At the end of the Seminar Shri R.K. Gupta, Secretary, Jaipur Chapter presented vote of thanks to all the participants.

Lucknow Chapter of Cost Accountants (LCCA)

LCCA organized an Inaugural function for the new session which commenced from July, 2012 and Prize Distribution Ceremony for Meritorious Students on 13.07.12 at CMA Bhawan, Lucknow.

The Chief Guest for the programme was Dr Jagdish Gandhi, Founder-Manager, City Montessori School. Also present were CMA Sunil Singh, Chairman, LCCA, CMA N.K.Maurya, Guest of Honour, Zonal Manager, Rural Electrification Corporation CMA. Seema Singh, Vice Chairperson, CMA Vikas Srivastava, Secretary and, CMA. Anjana Chaddha, Treasurer of the Chapter.

Inaugural Function was inaugurated by Sarswati Vandana after lighting of Lamp. CMA Seema Singh in her welcome address stated that CMA Career is the best option since it gives the required competence and expertise to meet the challenges in global meltdown. Chief Guest Dr Jagdish Gandhi, Founder-Manager, City Montessori School (CMS) congratulated all students who passed out with merit and achieved rank.

Dr Jagdish Gandhi, Chief Guest was felicitated by CMA Sunil Singh, and CMA Vikas Srivastava with shawl. A large number of new as well as old students of Lucknow Chapter attended this inaugural function. CMA Anjana Chaddha proposed Vote of Thanks.

Obituary

Shri B L Tholiya (Membership No. 94), one of the senior most practicing Cost Accountants, practicing for over 45 years, reached his heavenly abode on Friday, 29th June, 2012 at the age of 89.

Earlier, he was Central Council Member of the Institute of Cost Accountants of India (formerly the Institute of Cost & Works Accountants of India). He has helped and guided many eminent practicing Cost Accountants & senior members from Industry in establishing their professional career. In the true sense, he was friend, philosopher and guide to the Cost Accountants' fraternity.

About four decades back, he had conceptualized and was the founder member of Cost and Management Accountants in Practice (CAMAP), which now is a very active and vibrant Forum for Cost Accountants.

May his soul rest in peace.

First prize for Excellence in Cost Management – 2011 Category V: Public Manufacturing: Organisation (Large) awarded to Rashtriya Chemicals & Fertilizers Ltd. Seen with CMA M. Gopalakrishnan, the then President , Dr. M. Veerappa Moily, Hon'ble Minister, MCA and Mr. Naved Masood, Secretary, MCA, Shri Gautam Sen, Director (Finance), Shri RH Kulkarni, ED (Finance) and Shri Suresh Warior, DGM

First prize for Excellence in Cost Management – 2011 Category I: Private -Manufacturing: Organisation (Large) awarded to Videocon Industries Ltd. Seen with CMA M. Gopalakrishnan, the then President and CMA Rakesh Singh, the then Vice President, Dr. M. Veerappa Moily, Hon'ble Minister, MCA, and Mr. Naved Masood, Secretary, MCA, Shri Sunil Kumar Jain, CFO

CMA A B Nawal, RCM of WIRC, CMA Vijay P Joshi, Chairman of WIRC, CMA Manas Thakur Council Member, and CMA Chiranjib Das, Dy.Director, Studies at a workshop on Indirect Taxation at Mumbai.

CMA Rakesh Singh, President of the Institute and CMA S.C. Mohanty, Vice President presenting bouquet to Shri R.P.N. Singh, Hon'ble Minister of State, MCA

Third prize for Excellence in Cost Management – 2011 Category XI: Public-Service Sector (Medium) awarded to Rites Ltd. Seen with CMA M. Gopalakrishnan, the then President and CMA Rakesh Singh, the then Vice President, Dr. M. Veerappa Moily, Hon'ble Minister, MCA, and Mr. Naved Masood, Secretary, MCA, CMA Rajeev Malhotra, CMD.

First prize for Excellence in Cost Management – 2011 Category II: Private-Manufacturing: Organisation (Medium) awarded to Whirlpool of India Ltd. Mr. Vikas Bhatia,V.P. & C.F.O. Seen with CMA M. Gopalakrishnan, the then President and CMA Rakesh Singh, the then Vice President, Dr. M. Veerappa Moily, Hon'ble Minister, MCA and Mr. Naved Masood, Secretary, MCA, Shri Vikas Bhatia, VP & CFO and Shri Vishnu G. Prasath, GM.

CMA Rakesh Singh, President of the Institute and CMA S.C. Mohanty, Vice President presenting bouquet to Dr. M. Veerappa Moily, Hon'ble Union Minister, MCA

CMA Rakesh Singh, President of the Institute and CMA S.C. Mohanty, Vice President presenting bouquet to Mr. Naved Masood, IAS, Secretray, MCA.

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Glimpses of the felicitation programme held at our HQ on 23rd July 2012 on the occasion of visit of Shri Mukul Roy, Hon'ble Minister of Railways, Govt. of India

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