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The Management Accountant

The Journal for CMAs

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Ethical Governance

Glimpses of the 'Bhumi Pujan' held at Navi Mumbai on 9th August 2011

CMA Rakesh Singh, President igniting the lamp at a seminar organized by Faridabad Chapter on 11.09.12. Seen with the President are Shri Rajiv Chawla, President, Faridabad Small Industries Association and CMA Debjit Patra, Chairman, FCCA.

Seminar at Faridabad in progress on 11.09.12. Seen (from L to R) CMA Vijender Sharma, Chairman of NIRC, CMA, Rakesh Singh, President of the Institute, Shri Rajiv Chawla, President FSIA & Mr K.S. Berk, speaker at the seminar.

CMA Rakesh Singh,President of the Institute inaugurating the Satellite Centre at Vaishali Nagar, Jaipur while CMA S.C. Mohanty, Vice President & other members of Jaipur Chapter look on.

CMA S.C. Mohanty, Vice President of the Institute is felicitated with a bouquet from CMA Radha Krishna Komaragiri, Secretary, HCCA while CMA (Dr) P.V.S. Jagan Mohan Rao, Council Member, CMA Kunal Banerjee, past President and CMA K.K. Rao look on at the eve of a full day seminar on CARR & CAR on 17.08.12

The Management Accountant

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

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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.

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"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."

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Editorial

In the latest development of the political roller-coaster that India is now, Dr Manmohan Singh, the captain of the India Inc. has asked the passengers on board to fasten their belts and get ready for a fascinating journey ahead. The decision of the Government to introduce FDI in multi-brand retail, aviation and insurance sectors is perhaps just the right prescription that the doctor ordered if we are to achieve even the truncated target of average annual economic growth. The markets responded favourably as the 30-stock Sensex zoomed past 18500 and marching steadily towards the 19000 mark soon albeit amidst stiff political opposition and nationwide strike inflicting huge financial losses – at a time the nation was yet to recover from the shock of the "Coalgate" and the considerable hue and cry that brought down parliament to a grinding halt for days together. But 'Coalgate' is only a tip of the huge iceberg of scams India is mired with! A series of scams points towards the fact that India is on the throes of a governance crisis. Scams are not new in India; we had them before. But the gravity of the situation lies in the fact that each new scam dwarfs its predecessor and at the epicentre of each scam we have one or more person from politics. Under a democratic system the politicians are the 'agent' of the people who elect them to protect public interest. The success of the democratic system of governance lies in the probity of those agents.

The problem of governance lies not only with our political system, but the contagion has spread and debilitated our economic institutions, particularly the corporate organisations. Corporate governance is now a major problem and it is not only India-specific, but a global one. Almost every day we find one or more corporation making headlines of the newspapers, for the wrong reason. Worldcom, Tyco, Enron and Satyam are only some big names out of several others, spread across each decade, which were hit by governance failure. The Satyam episode is not much different.

Corporate governance mechanism has some similarities with our democratic governance system. Here, being absentee owners, the shareholders appoint the board of directors and auditors to look after their interest. But the problem in most cases, as we face it with our political governance, is that the agents or servants of the shareholders are more interested in promoting their self-interest than that of the shareholders who appoint them. Enron, one of the largest US corporations, had fallen prey to not only executive rapacity, but the board of directors, even though comprising fairly with independents, had failed in their basic fiduciary duties. The auditors of the company, one of the big eight in the profession assurance service, fared very poorly in carrying out their basic duties.

However, in this context, the rule of the society appears to be straight and clear: whenever people or communities have failed to self-regulate themselves, others have intervened. The Sarbanes-Oxley Act, which is fallout of the Enron disaster, has now given sweeping powers to the lawmakers to intervene. The draconian law not only casts stringent duties upon the board of directors as well as threats for severe punishments for failure to carry out their fiduciary duties, but the auditing profession has been shorn off its distinction and prestige by subjecting it to the scrutiny from the Public Company Accounting Oversight Board. In India, if the Companies Bill 2011 comes into effect we will see much of those provisions in the statute book. But before we explore the legal mines further for more arsenals, an important question remains to be answered is whether law and codes are substitutes for ethics.

While I leave my dear readers to deliberate on this, the present issue of the Management Accountant has been themed upon Ethical Governance, the need for which can hardly be over emphasized. This issue is enriched with the well-thought-of opinions from a galaxy of scholars in the field of governance.

Happy reading!

> **You miss 100% of the shots you don't take.**
> **-Wayne Gretzky**

CMA Rakesh Singh, President

Dear Professional Colleagues,

The concept of sustainable development and ethical business practices have been an integral part of our culture and ethos from time immemorial. The very first entry in our accounting books is "***Subh Labh***". This practice of starting with "Subh" which delineates the "Labh" that follows, is what the world has started talking now in terms of sustainable development and integrated reporting framework. The objectives of sustainable development includes meeting of the needs of the present *without compromising the abilities of the future generations to meet their own needs.*

The CMA Professionals have an important role to play in this area with their specialized domain knowledge. The cost reporting framework aims at highlighting the optimization of resources on a PPP (Planet, People and Profit) philosophy. The role we, from the emerging economy can play has been recognized through our membership of the Accounting Body Network (ABN) of Prince of Wales Foundation Accounting for Sustainability (A4S). On the domestic front, the Institute has been actively associated with the Global Reporting Initiative and has been working very closely with the Ministry of Corporate Affairs (MCA) on the Integrated Reporting initiatives and the Voluntary Business Responsibility Guidelines.

Our efforts have been duly recognized by International Federation of Accountants (IFAC) where we are likely to be getting the Chair on Sustainability. This honour has rarely been given to any accounting body outside Europe and USA.

Infrastructure Initiatives

While setting up the agenda for the current year we promised to focus on infrastructure, visibility and competency building measures. I am happy to inform you that the Institute is scaling up its activities in these priority areas and results are visible in the working of each Directorate and Department. To show the progress the Institute has made during the last month, I am now giving you a brief of activities of the Directorates and Departments of the Institute.

Aurangabad Chapter's acquired new property and the registration work completed. Jaipur chapter purchased land admeasuring 3000 sq.mtrs which will help in creating good infrastructure facility for the benefit of members and students.

Initiated action for purchase of land at strategic locations at Jaipur for a State of Art facility for Centre of Excellence

IT Backbone Initiatives

Information Technology Department – XBRL Taxonomy

I am glad to inform the members that the XBRL taxonomy and the Business Rules for the Cost Audit Report and Compliance Report have been finalized in consultation with the Ministry of Corporate Affairs. The taxonomy as well as Business Rules can be downloaded from the website of the Institute as well as the XBRL section of the website of MCA. With this our institute has taken the global leadership position in cost taxonomy.

The Institute is also organizing a number of awareness programmes on the Final Costing Taxonomy for the members across the country to familiarize them with the XBRL concepts and providing practical guidelines on creation of XBRL instance documents of the Cost Audit Report and Compliance Report. Members are requested to attend these programmes at their convenient locations and utilize the opportunity to gain deeper insight into the filings in XBRL mode.

Online Membership Module:

Online membership module has been upgraded to self-monitor CEP hours. Members can now see their CEP status online. Further modifications are being carried out to make it more user friendly.

Online Examination Form

Continuing on the drive to automate the activities of the Institute, the Examination Department of the Institute has hosted the Online Examination Application Form for the December 2012 term along with the Payment Gateway using debit / credit card. This is done for the first time in the history of the Institute and the step will help the students to apply for the exams by the click of the mouse.

Professional Development Activities

- **Tamil Nadu VAT (Third Amendment) Act, 2012**
  In the President's Communiqué for the month of July 2012, my predecessor CMA M. Gopalakrishnan had informed the recognition of cost accountants by Tamil Nadu for their VAT Audit. Tamil Nadu Government has now notified on 30th August 2012, Form 16-A and Form WW whereby every registered dealer liable to get his accounts audited inter alia by Cost Accountants, as per sub-section (1) of Section 63-A under the Act, and shall furnish the audit report in Form-WW.
- **Exposure Draft Guidance Note on Performance Appraisal Report (Form-III)**
  I am happy to inform the members that the Institute has exposed the revised Exposure Draft Guidance Note on Performance Appraisal Report (Form III), which is hosted on the Institute's website for comments/ suggestions from members and Industry.
- **Advanced Studies:**
  The Directorate of Advanced studies at Hyderabad Centre of Excellence (HEC) has embarked on Marketing of the Flagship Programs, targeting the Batches commencing January 2013. The Directorate had interactions with few Top Executives of Companies. Seminars, Road shows are being proposed to propagate the various programs of HCE.

The First Batch of Enterprise Performance Management and Appraisal Systems (EPMAS) is into its eighth week. The Examination in Paper – I of the course has recently been completed.

Besides the above, the HCE has organized / conducted the following Programs. A Seminar on "Developing Cost Statements - A Practical Approach" on 8th September 2012 wherein CMA D Zitendra Rao addressed the audience at a half day work shop on "Integrity at Work" in collaboration with Chartered Institute for Securities & Investment Was conducted on 14th September. Mr. Kevin Moore, Director CISI addressed and Mr. CSV Ahalada Rao, Director, B5 Consulting Pvt Ltd addressed on Corporate Governance.

International Affairs

The delegation of the Institute visited Kathmandu, Nepal during 14th to 15th September, 2012 to attend SAFA Events, Meetings and International Conference organized by the Institute of Chartered Accountants of Nepal. I along with CMA T.C.A. Srinivasa Prasad, CMA S.R. Bhargave, CMA H.K. Goel, Council Members and Institute Officials attended the meetings and the conference. During these meetings it was discussed to promote interaction through videoconferencing and webinars to bring awareness in the SAARC region about the activities of member countries. The need for the uniform legislation in the member body countries was also felt by the members.

The Delegation Comprising CMA Sanjay Gupta, CMA. TCA Srinivasa Prasad, Council Members along with the Officials of the Institute attended the Global Reporting Initiative - GRI's South Asia conference: Sustainability Reporting for a Sustainable Economy on 26th September 2012. Dr. M. Veerappa Moily, Hon'ble Union Minister of Corporate Affairs and Power, was the Chief Guest of the Conference and Mr. Naved Masood, Secretary, Ministry of Corporate Affairs, Government of India was the Guest of Honour in the conference.

President's Communique

Training Programs

A Seminar on `Cost Accounting Records Rules and Cost Audit Report Rules' was organized by the CEP – 1 directorate at Bhubaneswar on 14th September 2012. The Seminar was well received by the Industry, Corporate and practicing professionals. The Institute also organized two programs at Puducherry on `Issues in Direct Taxation, TDS and Tax Planning' and `Risk Based internal Audit for Corporate Governance'.

It is a matter of pleasure for all of us that for the first time an International Program is being organized for Indian Railways for IRAS Officers on the topic `Finance and Accounts' held at Delhi (NCR), London and Paris.

Considering the mandate by Ministry of Corporate Affairs, series of awareness programmes on "Filing of Cost Audit and Compliance Report in XBRL (eXtensible Business Reporting Language)" was organized by CEP-2 Directorate across country covering Delhi, Chennai, Mumbai, Lucknow, Kolkata, Coimbatore and Bhubaneswar during the month. For successful implementation of the mandate, our Regional Councils and Chapters have also taken up this drive very seriously in training the members at large and organized programmes at NIRC, Pune, Ahmedabad, Aurangabad, Surat, Baroda, Jamshedpur, Chandigarh and so on. There was overwhelming response and active participation by members.

I would like to extend sincere thanks to Ministry of Corporate Affairs, Shri B.B. Goyal (Advisor Cost) Cost Audit Branch and Dr. Pankaj Srivasatava, Director for guidance and enlightening the members with this new mechanism of XBRL under new framework of Cost Audit and Compliance Report. The Department will continue with series of programmes and more programmes for professional relevance and importance.

I am glad to inform that Online CEP module has been developed to facilitate our members to view the updated status of CEP Credit Hours awarded to them by the Institute for the programmes organised by Head Office, Regional Councils and Chapters. Members can view their CEP Credit Hours on our website under Online Membership Application System.

CAT Directorate Initiatives

CAT Directorate has geared up to conduct the first on-line Examination of CAT Competency Level II in the month of December 2012 and the mock on-line test will be made open to the students in the first week of October,2012 enabling the CAT Students to familiarize with the pattern of the on-line examination

Campus Placement Initiatives

On 29 Sept 2012 your Institute organized first-ever "Live and Inter-active Orientation Programme on Campus Placement" through Gyan Darshan TV for the June 2012 final qualified CMAs. This programme was well received by the students and many students across the country participated and interacted with the panel and benefited in knowing about Campus Placement programme scheduled during October, 2012.

Human Resource Department

The HR Department of the Institute organized a training on "Principles of Management" on 11th September, 2012 at Headquarters, Kolkata, which was facilitated by CMA T.C.A. Srinivasa Prasad and participated by the officials (Deputy Director and above) of the Institute.
In order to motivate the work force of the Institute an internal process of promotional activity from the designation of Senior Officer till deputy Director was organized by the Executive Committee at Headquarters, Kolkata on 28th August 2012.

Partnership with FISME

On 24th September 2012, I alongwith CMA Amit Apte, Council Member, met Shri V.K. Agarwal, President, FISME at Lucknow. We discussed many issues relating to the expectation of the Industry from the Institute and the areas where the Institute could play a vital role to the overall growth strategies of Small and Medium Enterprises in the country.

This meeting has further strengthened the relationship between the Institute and FISME.

I wish all the members and their family on the occasion of Gandhi Jayanti, Durga Puja, Dussehra, Id-uz-Zuha (Bakr-id) and Laxmi Puja.

With warm regards,

(CMA Rakesh Singh)
1st October 2012

CMA Hari Krishan Goel
Chairman,
CEP Committee

Dear Members,

It gives me immense pleasure to share with you the activities of the Continuing Education Programme (CEP) Committee during April to September, 2012.

The CEP-1 organized 29 programmes during the period which includes self-run and in-house programmes. The self run programmes were organized in the areas of Costing, Taxation, Auditing and Financial Management. The CEP-1 organised six exclusive seminars on Cost Accounting Record Rules (CARR) and Cost Audit Report Rules (CAR) at different locations which were very well received with wide participation by the Industry and Practising Members of the Institute.

The first Finance and Accounts Technical Training programme for the senior IRAS officers of Ministry of Railways was organized during the period scheduled at Delhi, London and Paris. In-house training programmes were organized for Nepal Electricity Authority, Rural Electrification Corporation, HUDCO and Central Warehousing Corporation during the period.
We have completed Second Three Weeks Certificate Course for Indian Navy which received overwhelming response from Indian Navy and this certificate course will be conducted on continuous basis for the Senior Officers of Indian Navy every year. The Committee is also organizing an exclusive training programme for Indian Air Force on Accounting Standards, Costing and Contract Management and also exclusive five day IFRS Training programmes for the Senior Officers of ONGC Limited at different locations. The Committee has already announced 15th International training programme on `Strategic Financial Management' at Singapore, Malaysia and Thailand, details of which are being published elsewhere in this issue.

The Committee already announced training programme on `Recent Trends in Corporate Reporting and Corporate Finance' at Vylar, Kerala and two programmes on Taxation and Activity Based Costing at Goa. Two programmes were also announced at Srinagar on `Finance for Jr. Finance Executives' and `Emerging Issues in Management of Taxation' and two programmes at Shirdi on `Contract Management' and 'Emerging Issues in Direct and Indirect Taxation'.

I feel happy to inform you that the Institute and Confederation of Indian Industry (CII –ITC Centre of Excellence for Sustainability Development) has jointly organized an AccountAbility Accredited 'Certified Sustainability Assurance Practitioner' (CSAP) Training Course in May 2012 at Chennai, which was very much appreciated by the participants. This course completion authorizes the participant to be a certified practitioner for sustainability engagements.

In view of the opportunity for our practicing members, the Committee has organized two batches for Two days Seminar on 'Risk Based Internal Audit of Banks'(RBIA) which were concluded at Hyderabad Centre for Excellence and at Bangalore in April and June 2012.There was active participation of leading banks and CMAs. Role of CMAs in Banks as a Concurrent Auditor was discussed among the participants, where positive response was received. Looking at the interest of CMAs and appreciation from Banks, department is shortly going to announce more batches on the same.

The Continuing Education programme Committee (CEP-II) in association with Indirect Taxation Committee has organized a series of One day Workshop on Indirect Taxation for CMAs at Delhi, Chandigarh, Mumbai, Kolkata, Hyderabad, Bangalore and Chennai in May and June 2012. The Workshop was graced by the authorities from the CBEC at all cities.

CEP 2 has taken initiative to join with the Chapters to hold programmes for members.In June 2012 in association with Bangalore Chapter which organized a Workshop on CARR & CAR at Bangalore and joined with Mettur Salem Chapter for a Workshop on "Enabling Cost Competitiveness in Industry and Role of Internal & External Cost Reporting". There was overwhelming response and active participation of CMAs in the series of training programmes organized on "Revised Schedule VI & XBRL (eXtensible Business Reporting Language)" at Kolkata, Delhi, Bangalore, Hyderabad, Mumbai and Chennai.

Institute associated with Confederation of Indian Industry at New Delhi as a knowledge partner for the Interactive Session on Corporate Disclosures: Impact of Accounting Reforms. The Committee organized a programme on Cost Accounting Records Rules and Cost Audit Report Rules in academic collaboration with SCOPE, Standing Conference Public Enterprises to enlighten the PSUs with the new framework.

Continuing Education Programme Committee (CEP-2) is glad to inform you that Online CEP module has been developed to facilitate our members to view the updated status of CEP Credit Hours awarded to them by the Institute for the programmes organised by Head Office, Regional Councils and Chapters. For viewing the CEP Credit Hours on our website, please look for Online Membership Application System.

I take this opportunity to thank the President and other Council Members for their guidance extended to perform the activities of the CEP Committee in a more meaningful and efficient manner.

Wish you and your family members a Very Happy Durga Puja, Dussehra, Deepawali and Chath Pooja.

With warm regards,

CMA Hari Krishan Goel
Chairman, CEP Committee
1st October 2012

Corporate Governance and Promoters Equity: The Indian Context

Dr. M. Jayasree
Assistant Professor, Hyderabad Business School, GITAM University

Introduction

Corporate governance (Cadbury Report 1992) is the system by which companies are directed & controlled. It is concerned with the structures and allocation of responsibilities within the company. KMPG(2009) good corporate governance is characterized by a firm commitment and adoption of ethical practices by an organization across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including minority shareholders) in both good and bad times. To achieve this, certain checks and practices need to be whole heartedly embraced. The base objective of corporate governance is to promote fairness, transparency and accountability of corporates. Corporate governance was initially introduced in India as voluntary measure by the Confederation of Indian Industry in 1990's this later on became mandatory by inclusion of clause 49 in the listing agreement of Securities Exchange Board of India (SEBI). The corporate governance as per clause 49 has eight sections namely, Board of directors, audit committee, remuneration of directors, board procedures, Management, Shareholders, Report on corporate governance and compliance.

Brief Note on Evolution of Corporate Governance

Since independence the Indian government mostly followed socialist policy. The evaluation was done based on capital invested rather than on the return on investment. The government also nationalized industries and foreign competition was suppressed. Public companies in India were required only to comply to with the limited governance and disclosure standards enumerated in the Companies' Act of 1956, the listing agreement and accounting standards set forth by the Institute of Chartered Accountants of India.

The financial crisis in 1991 and reforms by government towards liberalization created a need for a regulatory body. Securities Exchange Board of India was formed in the year 1992. The need to raise capital through public issues has led to corporate governance initiatives. The first initiatives were undertaken by the Confederation of Indian Industry in 1998. These initiatives were voluntary in nature.

The second initiative was by SEBI in 1999. A committee was formed under the leadership of Kumar Mangalam Birla to promote and raise the standards of good corporate governance. The committee emphasized on constitution of board, role of independent directors and audit committees. These recommendations were accepted and were incorporated in clause 49 of listing agreement.

The third initiative was by the Department of Company Affairs in the year 2002. It appointed Naresh Chandra committee to examine various corporate governance issues. The recommendations of the committee were mainly on financial and non-financial disclosures and independent auditing. Later SEBI has appointed another committee under the chairmanship of N.R. Narayana Murthy to review clause 49. The recommendations mainly focused on audit committee, independent directors, related party transactions, risk management, directorships, director compensation, codes of conduct and financial disclosures.

The Satyam scandal once again created a need to examine the corporate governance issues. CII recommended a series of voluntary reforms. Inspired by the industry recommendations the Ministry of Company Affairs released a set of voluntary guidelines for corporate governance. These guidelines focused on the independence of Board, the responsibilities of the Board, audit committee, auditors and secretarial audits, and mechanisms to encourage whistle blowing.

Review of Literature

Heiko Spitzeck (2009) examined the patterns of integrating corporate responsibility issues into corporate governance mechanisms and their development over a time. The research study observed that there is increasing CEO leadership for corporate responsibility, and governance structures are increasingly making use of corporate responsibility committees.

Sylvie Berthelot (2010) analyzed corporate governance rankings published by market information intermediary are related not only to firm market value but also on accounting results. Giuseppina Talamo (2011) study confirmed that less open countries are characterized by stronger ownership restrictions and weak corporate governance mechanism on the other hand open market and investment regimes are powerful instruments to attract investment in general and foreign direct investment in particular. Morrison Handley-Schachler (2007) observed the goals of corporate governance in financial sector from a theoretical perspective.

Masudul Alam Choudhury (2006) explored the Islamic perspective of corporate governance and also examined corporate governance from Islamic economic and institutional perspective. Teresa Suzanne Young (2008) attempted to develop a new model of corporate governance that is holistic, incorporating internal and macro perspectives across legal, regulatory, sociological, ethical, human resource management, behavioural and corporate strategic frameworks. The paper argued that such holistic and integrated view is necessary for understanding governance systems.

Steen Thomsen (2005) tested the impact of corporate governance structure on corporate values and observed that there is no significant relationship between values and profitability. Philippe Haspeslagh (2010) examined crisis in terms of corporate governance failure and suggested that multivariate quality management may have a positive reaction to the crisis. Jiatao Li (2008) studied the influence on national culture on corporate governance and observed that national culture has a dominant influence on corporate governance structure.

Steven T. Petra (2008) examined the association of performance based incentives offered to CEOs and composition of firms' Board of Directors and the compensation committee. The study analysis were that CEOs are more likely to receive lower levels of performance based incentives when majority of the compensation committee members serve on less than three other Boards, and when the size of the Board is less than or equal to nine members. M. Pergola (2011) empirically tested the relationship between Board equity ownership and corporate governance on earnings quality of for profit corporations. The results supported the management entrenchment theory.

The review of literature revealed that corporate governance has been studied from different perspectives. The present study therefore focuses on a new dimension which attempts to understand the association of promoter's equity and corporate governance. It further examines whether promoter's equity would influence corporate governance.

Research Objective

Corporate policies are generally influenced by major stakeholders in a company. The entrenchment theory which speaks about three levels of stock ownership by directors indicates that the middle level ownership would give sufficient power to the directors to overcome governance mechanisms. This would allow managers to act in their self interest with little fear of removal or sanctions. The directors would become entrenched. Based on the theory the study attempts to understand the association of promoter's equity and corporate governance with Indian perspective.

Hypothesis

Ho: There is no association of promoter's equity and corporate governance

Ha: There is association of promoter's equity and corporate governance

Methodology

For the purpose of the study data has been collected through secondary sources. The secondary sources had been the company's annual reports and websites. The sample was drawn from companies included in the BSE index. A total of twenty companies are studied. The sampling technique adopted for the purpose is convenience sampling. A corporate governance index consisting of twenty parameters was developed to understand the observation of corporate governance. These parameters were taken based on index of composite governance mechanism developed by Institutional Shareholders Services, ICRA and CRISIL. The parameters include, disclosures (both financial and non-financial), whistle blowers, composition of the Board, qualification of the independent Directors, compliances, attendance of Directors, Directors compensation linked to performance, corporate governance rating, Annual general meetings, transfer of shares, investors complaints, HR compensation & Policies, Environment, Safety, community development, policy on ethics, Public share holding, Audit committee, number of

Directorships and Chairman serving for more than two companies. The total of the score is then divided by twenty to arrive at the index. The index is multiplied by hundred to convert into percentage. For understanding the association of promoter's equity on corporate governance Karl Pearson co-efficient of correlation is used. The hypothesis is tested at five percent level of significance.

Corporate Governance at Select Companies

Corporate governance aims to promote fairness, transparency and accountability of corporates. The corporate governance practices followed by select companies are analyzed by using twenty parameters. A score of one is given if the practice is followed fully; zero is assigned for not following the practice and an in-between score for companies not adhering to hundred percent practice of the parameter. The following table gives details of the corporate governance practices of select companies.

Table 1: Corporate Governance Index of Select Companies

Name of the Company	Total Score	Index in Percentage
Reliance Industries Ltd	16.85	84.25
Bharti Airtel	16.135	80.68
Bajaj Auto	13.845	69.23
CIPLA	7.89	39.45
DLF	17.57	87.85
Hero Motor Corp	14.14	70.7
Hindalco	13.18	65.9
Hindustan Unilever	15.34	76.7
Infosys	16	80
ITC	16.94	84.7
Jindal	13.76	68.8
Mahindra & Mahindra	16.51	82.55
Maruthi Suzuki	14.15	70.75
Sterlite	14.71	73.55
Sun Pharma	15.1	75.5
Tata Motors	15.95	79.75
Tata Power	15.15	75.75
Tata Steel	15.62	78.1
TCS	15.49	77.45
Wipro	14.2	71

The analysis of the above table indicates that of all the companies M/s DLF had a highest score of 87.85 percentage followed by ITC with 84.7 percent, Reliance Industries Ltd with 84.25 percent, Mahindra & Mahindra with 82.55 percent, Bharti Airtel 80.68 and Infosys with 80 percentage. Of all the companies CIPLA had the least score of 39.45 percent. All other companies' score were between 68 to 79 percent.

Descriptive Statistics

Table No 2 gives the details of the descriptive statistics for the variables included in the analysis.

The mean of disclosures is 0.466 and median is 0.44. The standard deviation is 0.064 indicating not much of variance from the mean. The minimum score was 0.38 and maximum was 0.66. The mean of whistle blowers is 0.75 and median is 1. The standard deviation is 0.444, minimum core is 0 and maximum is 1. The composition of the director's mean and median score is 1. The minimum score and maximum score is 1, indicating that this parameter was met by all companies taken in the study. The qualification of the director's was also as per the corporate governance norms for all the companies studied. The maximum and minimum scores were 1 for this parameter. The compliance parameter was also met by all the companies in the sample. The maximum and minimum were also 1 for this parameter.

The mean of Director's attendance is 0.8042 and median is 0.795. The standard deviation is 0.16, minimum score is 0.5 and maximum is 1. The mean of Director's compensation linked to performance is 0.85 and median is 1. The standard deviation is 0.37, minimum score is 0 and maximum is 1. The mean of corporate governance rating is 0.25 and median is 0. The standard deviation is 0.44, minimum score is 0 and maximum is 1. The annual general meeting parameter is met by all the companies studied. The minimum and maximum scores were 1. Investor's complaints and transfer of shares were also met by all the companies under study. The minimum and maximum scores were 1. The mean of HR compensation and policies is 0.55 and median is 1. The standard deviation is 0.51; minimum is 0 and maximum score is 1.

The mean of environment is 0.8 and median is 1. The standard deviation is 0.41, minimum score is 0 and maximum is 1. The mean of safety is 0.45, median is 0 and standard deviation is 0.51. The minimum score is 0 and maximum is 1. The public share holding mean is 0.52365, median is 0.485 and standard deviation is 0.19. The minimum score is 0.21 and maximum is 0.84. The audit committee parameter is met all the companies in the sample studied. The mean of number of Directorships is 0.59, median is 0.65 and standard deviation is 0.27. The minimum score is 0 and maximum is 1. The mean of CEO serving for more than two companies is 0.25, median is 0 and standard deviation is 0.44. The minimum score is 0 and maximum is 1.

Table 2: Descriptive Statistics

Variables	Mean	Median	Standard Deviation	Minimum	Maximum
Disclosures	0.466	0.44	0.064	0.38	0.66
Whistle blowers	0.75	1	0.444	0	1
Composition of the board >50% or 1/3	1	1	0	1	1
Qualification of the independent directors	1	1	0	1	1
Compliance	1	1	0	1	1
Attendance of directors > 75%	0.8042	0.795	0.16	0.5	1
Directors Compensation linked to performance	0.85	1	0.37	0	1
Corporate Governance rating	0.25	0	0.44	0	1
Share holders relations—AGM	1	1	0	1	1
Transfer of shares,	1	1	0	1	1
Investors complaints	1	1	0	1	1
HR compensation & Policies	0.55	1	0.51	0	1
Environment	0.8	1	0.41	0	1
Safety	0.45	0	0.51	0	1
Community development	0.9	1	0.31	0	1
Policy on ethics	1	1	0	1	1
Public Share holding	0.52365	0.485	0.19	0.21	0.84
Audit committee consists of outside independent directors	1	1	0	1	1
Number of directorships of directors not more than 5	0.59	0.65	0.27	0	1
CEO serves not more than 2	0.25	0	0.44	0	1

Corporate Governance and Promoter's Equity

The objective of the article is to understand the association of corporate governance and promoter's equity. For this purpose Karl Pearson co-efficient of correlation is used. The following table gives details of corporate governance and promoter's equity.

Table 3: Corporate Governance and Promoter's Equity

Name of the Company	Corporate Governance Index	Promoter's Equity
Reliance Industries Ltd	84.25	44.72
Bharti Airtel	80.68	68.29
Bajaj Auto	69.23	51
CIPLA	39.45	36.8
DLF	87.85	79
Hero Motor Corp	70.7	52.21
Hindalco	65.9	32.08
Hindustan Unilever	76.7	52.55
Infosys	80	16.04
ITC	84.7	25
Jindal	68.8	58.41
Mahindra & Mahindra	82.55	24.9
Maruthi Suzuki	70.75	54.21
Sterlite	73.55	57.7
Sun Pharma	75.5	63.72
Tata Motors	79.75	34.83
Tata Power	75.75	35.58
Tata Steel	78.1	31.61
TCS	77.45	73.98
Wipro	71	78.41

The correlation calculated for the corporate governance and promoter's equity is 0.0465. This was tested at five percent level of significance at n-2 degrees of freedom. The calculated value is 1.03317. The t-table value for the same is 2.920. The calculated value is within the table value indicating that the null hypothesis is true. This means that there is no association of corporate governance and promoter's equity.

Conclusion

Corporate governance aims at promoting fairness, transparency and accountability of companies. It ensures that the companies are governed in the best interest of all its stake holders. The analysis of corporate governance index indicates that M/s DLF had a highest score of 87.85 percentage followed by ITC with 84.7 percent, Reliance Industries Ltd with 84.25 percent, Mahindra & Mahindra with 82.55 percent, Bharti Airtel 80.68 and Infosys with 80 percentage. Of all the companies, CIPLA had the least score of 39.45 percent. All other companies' score were between 68 to 79 percent. Of all the parameters studied, Composition of the Board, qualification of independent Directors, Share holders relations-AGM, Transfer of shares, Investors complaints, Policy on ethics and audit committee composition of outside independent directors were met by all the companies. The Corporate governance rating practice average was only 0.25. Only few companies in the sample opted for corporate governance rating by ICRA and CRISIL. The score for CEO serving for more than two companies was also low. The other parameters average scores were in between 0.45 to 0.9. The association of corporate governance and promoter's equity using Karl Pearson co-efficient of correlation showed that r value was 0.0465, indicating that the correlation was very low. The hypothesis tested at five percent level of significance proved the null hypothesis correct. The study did not find association of corporate governance and promoter's equity.

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The Torch Bearers of our Profession

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Our heartiest congratulations to Shri Agrawal!

Corporate Governance Practices and Ethical Standards for Profit Optimization—An Evaluation

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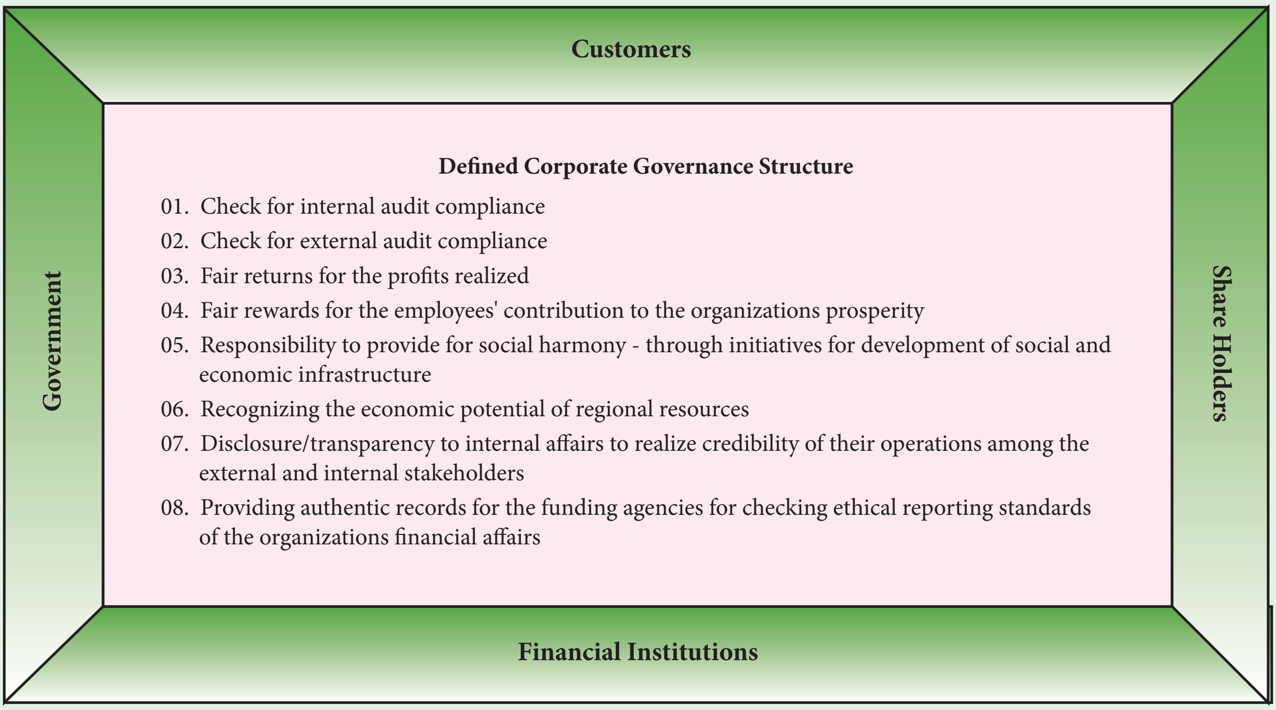
Introduction

Corporate governance practices emphasizes to cover a wide range of phenomenon to cover distinct responsibilities of the organizations especially the profit and nonprofit making centers. As per the definition adopted by Organization for Economic Cooperation and Development (OECD) – "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance." This definition comprehensively covers all the aspects pertaining to the responsibilities that the organization has to discharge towards their stakeholders, which distinctly specify what the organization has to keep in mind when they are responsible towards a number of stake holders who play a important role in the day to day affairs of the organization and such interest which have to be incorporated into their vision that can help them in accomplishing their objectives more effectively and efficiently without affecting their stakeholders interest. A brief evaluation brings into light the following aspects of corporate responsibility.

1. The organization objective to provide for economic integration among the internal and external stakeholder will have to keep in mind the basic philosophies that govern their operations,
2. The organization structure that provides for distribution of responsibilities and authorities within has to be mind no such authorities are used to accomplish the personal objectives of the person discharging such responsibilities and should be within the ambit of the corporate governance structure designed by the organization,
3. The internal and external stakeholders have to be provided with necessary opportunities to check such affairs of the organization which they feel so as a requirement to check the credibility of the organization which would help the organization to overcome the skeptical attitude of the stakeholders towards the affairs of the organization,
4. The organization will have to take necessary care to see that socio and economic interest of their stakeholders are protected in the event of taking any strategic decision and if deemed a mandate will have to take them into confidence by providing utmost transparency as to the factors that are influencing the organization to take decision,
5. The corporate governance practices will have to integrate into the objective of the organization to provide for corporate social responsibilities which can in turn help them in bringing synergy into their operations. Corporate governance structure adopted by the organization should bring in additional value to the organization value chain and delivery optimal value to their external stakeholders i.e. the customers, and the authenticity to the records maintained by the organization will ensure fair filing of returns to the government for the profits generated by their operations,
6. Finally, corporate governance practices as a part of policy measure of the organization will have to be considered by the internal stakeholders as a part of their organizational culture and such practices will have to be adopted as a value system essential for their growth and excellence within in the organization.

Corporate governance structure and corporate value creation

The following model presented indentifies and summarizes the need for corporate governance practices and identifies the significant areas of concern for the organization in creating corporate governance structure that can create value for their operations and deliver such value crated towards their stakeholders, mainly to focus on the Customers, Financial Institutions funding their Strategic and Functional needs, Share Holders and the Government, and followed by a brief evaluation of the same in the following paragraph.



From the above model the following aspects of corporate responsibility become very obvious,

1. The corporate governance practices should necessarily take into consideration the audit compliance requirements as per the CAG (Comptroller of Audit General) requirements which is a mandate requirement, where every organization will have to have both internal and external audit procedures that they will have to comply, which becomes the basis for the organization to file their returns with the IT authorities
2. The BOD (Board of Directors) in order to ensure that the stakeholder i.e. the shareholders will be providing with all the required information on a timely manner, and hence they convene annual general body meeting as a mandatory requirement of Company Act of 1956, wherein the secretary of the company will have to disclose the authentic information regarding the internal and external affairs of the company, and adoption of effective corporate governance practices will help the organization in entrusting faith in the share holders and create long term commitment towards the organization
3. There is a need for creating a synergy between corporate ethics, governance practices and social responsibility. This is becoming an essential requirement now a day with the advent of globalization and its burgeoning impact on the corporate affairs of the domestic enterprises. And the stake holders of the organization getting spread over wide geographic area, controlling and coordinating their efforts becomes a prodigious task ahead of corporate/strategic leaders. Sound corporate governance structure and the ability of the internal claimants to get socialized into the system will help them to deliver value to their activities more effectively and efficiently.
4. Further, there is an earnest need for the companies to score very high on the CSR (corporate social responsibilities) indicators. As a number of studies in the past have analyzed and proven the importance of CSR getting embedded into the corporate strategies of the companies, which requires them to take necessary initiatives to publish reports on how they have been responding to stakeholders' social and environmental concerns, which otherwise would create erroneous environment for their prospects and jeopardize their survival, especially in the competitive environment which are greatly daunting and intimidating the domestic companies in light of the scale of globalization impacting the domestic markets.

The above points for consideration becomes more obvious in light of review of earlier works conducted both in domestic as well as international markets/ economies. A brief review of the same is presented below.

Review of Earlier works highlighting the importance of Corporate Governance Practices to any organization

Dash, Amarendra Kumar (2012)[1] in his study identified the failure of the media in providing for effective governance practices, as most of the times majority of the individuals are isolated from the information regarding poor corporate governance practices and are taken undue advantage of such informational inefficiencies. Dash, Amarendra Kumar & Padhi, Harapriya (2011)[2] in their study observed the scope of mass media's in evaluating its impact on the ethical practices of the corporate houses, and identifies the role of regulators'/ authorities in pioneering the effort to establish standards for the medias to address the corporate governance issues and its abuses experienced in India, and claimed that the legal and institutional reforms will have to be initiated to foster better flow of information and provide transparency to the practices followed by the corporate houses. He, Lerong & Ho Kathy, Shin-Jen (2011)[3] developed a model for assessing the cost of external control on protection of share holders interest, and suggested that managerial ethics would act as an alternative for providing effectiveness in protecting share holders interest. This requires designing best corporate governance practices that can ensure them with benefits of monitoring the efficiency, and effectiveness of ethical standards set. Further, educating share holders regarding the stringent regulation and monitoring mechanism adopted by the organization will enhance shareholder value and also provide for protecting the social norms within the ambit of which the organization operates. The researchers also opine that educating the stake holders regarding the ethical norms is always a better alternative than mere formulation of stringent regulatory norms for corporate governance practices. Alao, O & Raimi, L (2011)[4] in their study identified the role of corporate governance practice in the event of global economic meltdown and opined that effective corporate governance practice will ensure the share holders that though such meltdown has a ripple effect on all the economies their interest would be protected as sound regulatory and supervisory mechanism in place will ensure them that such effects could be sustained effectively and on the other hand liquidity constraints, poor corporate governance compliance, poor credit risk management policy and ineffective allocation of capital to businesses houses would make the economy to remain isolated from growth from rest of the economies. Hansen, Krause Hans (2011)[5] in his study observed how poor corporate social responsibilities and business ethics would pave way for corruptive practices by the management and suggest that establishment of anti-corruption system internally would ensure them with effective management of their risk and provide for competitive aspirations and enhance efficiency of their operations. Talamo, Giuseppina (2011)[6] in his study identified the role of corporate governance practices in attracting investment from domestic and international markets, identifying the legal requirements of the capital market to provide for sound governance practices that can ensure its investors with security for their investment and also provide the required information as and when demanded for. Further the study shows that less open economies fail to attract FDI investments due to finicky attitude of the investors towards such economies. Demidenko, Elena & McNutt, Patrick (2010)[7] in their study observed the need for creation of risk management framework which can help them in governing the risk associated with their operations which can in turn helps in creating enterprise value model through strategic planning process, so as to integrate all their operations for realizing their objectives with the help of such ethical risk management practices, and conclude that application of ethics in corporate governance, can assist the organizations in the process of protecting shareholders' value, and increase their bottom-line profitability. Adam, M. Ayshalom & Schwartz S. Mark (2009)[8] in their study held that sound corporate governance practices adopted by the organizations helps them in protecting the interest of the shareholders and contrarily when the organization provides for stock options as a measure to protect the internal stakeholders interest, their lies an agency problem if such practices is ethically justifiable though legally permissible, and questions how the directors and executives justify that all of their actions are based on a set of core ethical values adopted by the organization. Kalbers, P. Lawrence (2009)[9] in his study showed how fraudulent reporting mechanisms and poor corporate governance practice leads to poor ethical behaviour of the business and indentified the narrow approach of business research to address this issue, and identified need for integration of business research and management research to address the issues of poor governance and fraudulent financial reporting systems in place. Rossouw, G.J (2009)[10] in his study opined that corporate governance practices of any organization would have four facets namely, the pattern of ownership the organization carries, their responsibility towards the society, cultural and social norms adopted by them and the socio-political priorities that govern their operations. These factors in turn set the ethical governance practices and provide for global convergence especially for those corporations which promote global corporate governance standards. Maerki, Hans Ulrich (2008)[11] in his study identified the need for corporate governance, especially for those moving from multinational to global enterprising for integrating their operations would raise the governance implications at the international, national and local level across many dimensions, to name a few are culture, skills and ethics. Further, globally integrated enterprises are seen redefining relationships with their stakeholders with the help of greater collaboration, which demands creating trust among them which makes development of efficient practices of corporate governance. Low, Mary et al. (2008)[12] identified the issues in front of accounting education in light of growing accounting scandals leading to major corporate collapses, creating need for development of sound auditing system to ensure transparency in preparation and furnishing of financial statements to their stakeholders where accountants would play an important role in providing good governance practices and thereby create ethical sustainable business. Further, opined that ethics education for accounting graduates would provide for ethical behaviour in their practices in the organization where they discharge their responsibilities towards the organization and thereby various stakeholders of the organization. Lovell, Alan (2006)[13] in his study identified how apolitical and amoral attitude of organization make them self centered and selfish with motto of profit maximization, and opined that sound governance and ethical practices as a part of organization culture when decoupled with law and ethics would provide for corporate accountability and portray organization as a part of the society. Minkes, A.L et al. (1999)[14] identified the relationship between organization leadership, and ethical corporate governance practices and explains how there is an increased importance for the business to have ethical and socially responsible attitude towards their business. Further, opined that there is atleast a augmented awareness regarding the ethical practices of the business in the society and hence it becomes essential for them to have sound governance practices to face their ethical dilemmas where the corporate leaders play a pivotal role.

A close observation of the above literature helps us in identifying the need for every organization for designing a sound corporate governance structure and formulates ethical business policies that can help them in realizing their objectives, creating sound goodwill among their stake holders. Further, to make an evaluation of the various corporate governance strategies and the efficiency realized, few MSMEs were selected operating in industrial areas of Shimoga and Bhadravati for the purpose of study, and a brief evaluation of their responses are presented in the following paragraphs.

Sources of Data and Sample Size

The required and relevant data are collected from primary sources by administering the questionnaire and schedule to the organizations (micro, small and medium enterprises) with different demographic characteristics. The questionnaire was designed to study the awareness and attitude towards adoption of corporate governance practices by the organization and the challenges faced by them in creating and implementation of the ethical standards for their operations. For the purpose of the present study, 50 respondent organizations' were selected using purposive sampling technique.

Objective of the study

The study was conducted with the following objectives.

- To evaluate the felt need for the organizations to adopt corporate governance and ethical business practices for their operations.
- To study the level of acceptability by the organization and their stake holders towards adoption of governance practices.
- To evaluate the efficiency delivered by corporate governance practices to the operations of the organizations.

Statistical Tools used for Data Analysis

The responses obtained from the respondents are tabulated using SPSS and are processed using Excel. To analyse the data and to interpret the analysis, Simple Percentage and descriptive statistics is used. With these details about the objectives and methodology, an analysis is made in the following paragraphs to evaluate the efficiency of corporate governance structure in optimizing the performance and profitability of the organizations.

Demographic Profile of the respondents

Some of the important aspects relating to the demographics of the investor-respondents are tabulated and presented below (Table – 1).

Table 1: Demographics of the sample surveyed

Age	Frequency
20-25yrs	11
26-35yrs	4
36-45yrs	14
46 & above	21
Total	50
Education	**Frequency**
SSLC	5
PUC/ITI	6
Degree/Diploma	26
Post Graduation	13
Total	50
Scale of Operations	**Frequency**
Micro	3
Small	33
Medium	14
Total	50
Gender	**Frequency**
Male	50
Female	0
Total	50
Nature of Ownership Pattern	**Frequency**
Private Limited	16
Sole Proprietorship	18
Partnership Firm	15
Others	1
Total	50

Source: Primary Data

The Micro, Small and Medium Enterprises selected for the study are involved in a number of business activities, with an objective of understanding the nature of activities in which the respondents organizations were involved, they were requested to respond as to what is the nature of activities they were involved and the responses obtained is summarized and presented in Table 2 below followed by a brief analysis.

Table 2: Nature of activities performed by respondent Organization

Nature of activities	Total number of Respondent
Processing	7
Manufacturing	32
Assembling	4
Services	12
Total	50

Source: Primary data

From the above table it can be observed that the respondent organization involved in diverse business activities were selected to evaluate how the nature of activities that they are involved would determine their funding requirements and how they source such requirements. Here it can observed that large number of respondents i.e. 32 out of 50 were found to involve in manufacturing activities, 12 organizations from Services, 7 from Processing, and 4 organizations from Assembly were selected for the study, and can be seen that fair representation from diverse organizations was provided for the study. The volume of revenues generated by the respondent group is obtained and presented in Table – 3 below followed by a brief analysis.

Table 3: Average Turnover generated by the Respondent Organizations

Average Annual Turnover	Total number of Respondent
Below 10 lakhs	8
10 lakhs to 25 lakhs	8
25 lakhs to 50 lakhs	7
50 lakhs to 1 crore	10
1 crore to 5 crore	14
5 crore& above	3
Total	50

Source: Primary data

From table 3 it can be observed that majority of the respondents selected for the study were medium scale enterprises with an average annual turnover of `50 Lakhs and above i.e. 27 respondents (54%) and an equal representation of respondents were chosen with an average annual turnover of below `10 Lakhs, between `10 to 25 Lakhs and between `25 to 50 Lakhs i.e. 8 respondents each (16%), this was to analyze, if the scale of their operations has any bearing on the nature of corporate governance practices adopted by the organization, and in this background the respondents were asked to specify if they were aware of governance requirements for their operations, and their responses are summarized and presented in table – 4 followed by a brief evaluation.

Table 4: Awareness towards KSFC by the respondent organization

Level of awareness and dependence on KSFC	Total number of Respon-dent
Not aware	4
Aware but not feel necessity for the scale of operations that we have	18
Adopt few governance norms as per the mandate requirements of the Legal Infrastructure governing the business	24
Adopt corporate governance norms more as a strategic requirements of the business	4
Total	50

Source: Primary data

From the above table it becomes obvious that only a small section of organizations i.e. 4 organizations are not aware of any corporate governance norms which were small scale organization (4 i.e. 9.30%) and few respondents organization contrarily consider this as a strategic requirement to earn credibility among their stakeholders as most of the stakeholders greatly appreciate transparency in the operations of the organization, which were the medium enterprises and other section of larger respondent organization i.e. 18 organization find it not necessary for them to have formal corporate governance structure as the scale of operations they have is either small scale or micro level, whereas another larger section of respondent organization i.e. 24 organization adopt governance norms as per the legal requirements that govern their operations. With an objective of making an evaluation of organization complying with the corporate governance standards, few of the identified variables for measuring the standards were asked to the respondents to respond and the summary of their responses are summarized and presented below in table – 5 followed by a brief analysis.

From the above table the following points becomes clear.

1. Among the small group of micro enterprises surveyed it could be seen that the governance structure they adopt confine to providing for external audit compliance as per the legal infrastructure that control their operations and providing authentic records for the organization which provide for their funding

Table 5 Steps for Providing Efficient Governance Practices and Setting Ethical Standards for Operations

Measures for Providing Corporate Governance	Scale of Operations		
	Micro	Small	Medium
01. Check for internal audit compliance	1	23	14
02. Check for external audit compliance	3	33	14
03. Paying fair returns for the profits realized	3	33	14
04. Fair rewards for the employees' contribution to the organizations prosperity	1	12	10
05. Responsibility to provide for social harmony – through initiatives for development of social and economic infrastructure	0	10	9
06. Recognizing the economic potential of regional resources	0	14	10
07. Disclosure/transparency to internal affairs to realize credibility of their operations among the external and internal stakeholders	0	21	12
08. Providing authentic records for the funding agencies for checking ethical reporting standards of the organizations financial affairs	3	28	14

Note: Multiple responses allowed
Source: Primary Data

requirements, and have no scope or limited focus towards providing for social and economic prosperity of their external stakeholders i.e. the society at large.

2. Whereas the small scale enterprises though their scope of operations are low, have identified the need for creating an effective structure for complying to the governance standards as per the requirements of their stakeholders as well as the legal infrastructure controlling their operations, and for the purpose of providing ethical standards for their operations, integrate the stakeholders interest into their objectives and create necessary social and economic infrastructure for their growth. Though providing authentic and credible information for their funding agencies is an essential requirement, meeting the internal and external audit requirement/compliances, and filing fair returns for the profits realized to the tax authorities continues to be the mandate requirements for all the organizations to communicate regarding the sound corporate governance practices to their stakeholders.
3. From the perspective of medium scale enterprises, major focus of the organization to provide for efficient corporate governance structure would include to meet the audit compliance both internally and externally and will have to consider their responsibility towards the societal growth on a pivotal importance and will have

Table 6 Corporate Governance Structure as a need for Profit Optimization

Responses	Scale of Operations		
	Micro	Small	Medium
01. Good Corporate Governance practices increases credibility among stakeholders and thereby optimized business performance	2	20	14
02. Creating sound corporate governance structure is only a strategic initiative of the organization and itself doesn't ensure profit optimization	3	25	14
03. Ethical standards set for the operations always itself get integrated into the governance standards	3	33	14
04. There is no correlation between organizations potential to realize fair amount of profits and their governance practices, though practicing ethical practices in their business would enhance their credibility in the market	3	7	5
05. Ethical standards followed by a business and providing complete transparency to their operations will make the organization to lose their competitive position in the market and in the later stages would evaporate the profit positions held by them in the market	3	8	5
06. Corporate governance structure should be limited to the requirements of the legal infrastructure only as with holding the stakeholders into the organization is only evaluated by them in terms of returns they realize from the organization and not in terms of the spoken values	3	33	5

Note: Multiple responses allowed
Source: Primary Data

to ensure that all their stakeholders have access to their internal affairs so as to create credibility among them which in turn ensures smooth flow of their business operations.

In this background the respondents were asked to respond their opinion regards the essence for creating governance structure for optimizing profits, and their responses are summarized and presented below in table – 6 followed by a brief evaluation

From the above table the following become very obvious.

Where all the medium scale enterprises opine that, good Corporate Governance practices increases credibility among stakeholders and thereby optimizes business performance, this as a strategic initiative will not ensure profit optimization, whereas majority of micro and small scale enterprises also accept to this statements and all the respondent units opine that setting good ethical standards for their operations will itself get integrated into the efficient corporate governance structure as perceived by their stakeholders.

All the micro enterprises opine that, there is no correlation between organizations potential to realize fair profits and the defined governance structure, and practicing ethical practices would enhance their credibility in the market, a large group of small and medium enterprises i.e. 26 and 9 organizations respectively take an alternative stance and believe that there lies perfect correlation between the ethical standards set by them and the level of transparency that they can provide for their operations to their ability to realize the potential opportunities in the market. As the competitive advantage earned by them by such initiatives will help them to sustain their customers and realize optimal profits even when the market turn highly hostile.

Where all the micro enterprises believe that ethical standards followed by them and providing complete transparency to their operations would make them to lose their competitive position in the market which in the later stages evaporate the profit positions held by them in the market, a larger group of small and medium enterprises i.e. 25 and 9 respectively opine that it is a conservative taught that organizations policy to provide for transparency to their operations will make them to lose their profits positions and such practices due to enhanced credibility among their stakeholders will help them to earn above normal profits in the long run.

Further, all the micro and small enterprises opine that Corporate governance structure most of time should confirm to the requirements as per the legal infrastructure that govern them so as to with hold the stakeholders interest with them as most of times their focus is on the returns they realize from the organization and not in terms of their spoken values, a fair amount of respondents i.e. 9 medium scale enterprises feel that the spoken and practiced principles that govern their operations has a significant influence on their future operations as the primary focus of them will be to sustain and grow in the long run and not focus too much on the current profitability positions.

Conclusion

A close observation and critical evaluation of the above responses and earlier literature works show that, nonetheless corporate governance practices and practicing ethical standards by the organization is a felt need, many of them confine such practices only to requirements as per the legal infrastructure that govern their operations, and there is no strategic intent among majority of them to provide transparency to their internal affairs, as such disclosures would make them to lose their competitive position held by them in the market and evaporate their profit positions in the long run. Hence it becomes indispensable, as observed by a number of studies in the past that every organization weather small, medium or large has to define their corporate governance structures, which can help them in realizing favourable positions in the market and in the long run realize optimal profits by enhancing the credibility among their stakeholders both internal as well as external. Hence corporate governance in today context is moving from legal perspective to a strategic perspective to all the organizations operating in hostile economic/industry/market conditions.

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Corporate Governance

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The Concept of Corporate Governance

Beginning at the beginning, it has to be underscored that the *clou* of corporate governance is that it is external to the management system of an enterprise, a corporate enterprise for that matter. Its point of stress is security of funds employed in the business rather that the quality of deployment of the funds. The contexture of ethical governance is naturally more relevant for the corporate enterprise than for any other form of enterprise. The concept of corporate governance has come into vogue as an antidote to the numerous instances of malpractices in which managers of different well-known corporations indulged in different countries such as the USA, UK, Germany, Italy, France, Netherlands and India. The contents of corporate governance can be traced to the reports of the Cohen Commission published in early 1978 and the Treadway Commission in 1987 which had almost all the elements envisaged in the format of corporate governance which came as an external regulatory device to keep companies on course. The name corporate governance was brought into currency by the World Bank in 1989 and it owed its origin to the Greek word Kubernan, meaning steering. The corporate world in different countries widely accepted the term as a series of corporate governance reports directly or indirectly laid down the criteria and contents in codes of corporate governance practices that companies were desired to put into effect. While in most countries the initiative was taken by the industry associations and various regulatory bodies, a specific law, the Sarbanes-Oxley Act 2002, (Sarbox) was enacted in the USA, laying down quite stringent corporate conduct rules and regulations overtly intended to put errant corporate managers under leash. While signing the Corporate Responsibility Bill, President George Bush underlined that Corporate misdeeds will be found and will be punished. This law authorizes new funding for technology at the Securities and Exchange Commission to uncover wrongdoing. The SEC will now have the administrative authority to bar dishonest directors and officers from ever again serving in positions of corporate responsibility. The penalties for obstructing justice and shredding documents are greatly increased. Corporate crime will no longer pay. CEOs who profit by betraying the public trust will be forced to return those gains to investors. And the maximum for common types of fraud has quadrupled from five to 20 years." (Refer to. *http://www.Whitehouse.gov/news/releases/2002/07/ print/20020730.html*).

Initial Hullabaloo

The Act created a furore in the corporate world in the USA for knowing and judging what was to be done to get over the hurdle. Curiously, while the management was gasping for breath running helter-skelter in dealing with various requirements, the big four audit firms had a bonanza of sorts in terms of hefty fees for deciphering and interpreting various provisions in the Sarbanes Oxley Act, 2002 and the governance codes. In the United States alone, billions of dollars accrued to the big audit firms for the interpretational exercises alone for ensuring compliance. Non-compliance within a specified date meant heavy penalties; as long as the likely penalties were more than the cost of compliance, management would have considered the cost acceptable. Even in other countries, including Europe and India, requirements of good governance practices and reporting engaged both official and unofficial attention. Many committees and commissions examined and re-examined the various issues concerned with developing the codes of good governance, though in effect these were only a rehash of the Cadbury Committee Report. Corporate laws have accommodated these elements and the regulatory bodies have translated these elements into operational terms. Consideration and reconsideration of different provisions followed in the light of practical nuances, with a number of amendments to the earlier codes so that they could be immediately relevant and purposeful. USA was lucky to have a de facto institution in the persona of Eliot Spitzer, the New York Attorney General, who single-handedly and speedily brought to trial several errant corporate top and lower level managers as also individuals and organizations for getting inside information leading to misconduct.

Code of Governance

The functions of governance of a company entails observance of a Code of Conduct by a corporate entity reflected through the actions of its Board of Directors and others managing its affairs. The code of conduct calls for observance in order to protect the interests of the shareholders, the public, the State, the employees and the creditors. The code of conduct underscores the need to disclose to all those affected by the company's operations in a transparent manner the various aspects of its internal affairs covering its financial, administrative, operational and other issues as also the extent to which external supervision ensures that the company abides by the dictates of efficient use of the resources at its command, embracing both the security and the utilization aspects. Supervision, accountability, fairness in dealings with both the internal and external elements and due observance of the ethical standards and transparency in the practices to be followed by the companies, thus provide the fundamental standpoints of corporate governance as framed from time to time. The codes framed by the industry and trade associations have given apparent primacy to protection of minority shareholders, maximization of shareholder value and propriety of dealings with the stock market and customers as also the guidelines enounced by regulators. Short-termism willy-nilly came to occupy the centre-stage as alleged by several commentators, in different countries. A company is a perpetual entity and it is accorded the status of citizenship under company law. Its major focus is therefore on healthy sustenance in the long term. A company is a social institution and as such, all its activities centre logically on what is considered social good whose focus is quite large and goes far beyond the concept of corporate social responsibility. Many issues are involved in all this, only some of which are underscored in the following paragraphs so that joint companies are both incorporated and run as companies—as public property, rather than private.

A Company as a Company

To guarantee that a company functions as a company, discrete legislations have been enacted in all countries with a large number of sections overtly dealing with all relevant aspects of their functioning while active surveillance mechanisms have been at place that oversee the observance of these provisions in practice. The Certificate of Incorporation—in effect the birth certificate of a company, the Memorandum of Association—the charter of its existence, and the Articles of Association—the distribution of powers and responsibilities related to internal management—are all working documents that guide and regulate the day to day operations of a company in regard to its internal operations and its dealings with the external world. In addition to the laws, there are regulatory bodies and professional institutions to ensure thorough compliance with what constitutes acceptable behaviour of the company in action. For instance, while the statutory auditors assess the veracity of the figures presented in the accounts, the secretarial auditors seek to ensure compliance with different legal requirements of maintenance of books, recording of proceedings of the Board meetings, the Annual General Meetings and other records.

In short, corporate governance underlines the external projections of measures for ensuring truth, fairness and transparency of corporate operations on one hand and corporate accountability on the other. The quality of the governance systems in place remains under the scanner through various mechanisms which are in the main externalized, in the sense that while corporate managers seek to achieve the strategies, objectives and policies in the long and the short run, corporate governance attempts to ensure that the corporate responsibilities are properly discharged in the best interest of not only the corporation as such but also the society at large. The functions of a corporation are manifold which are sought to be performed with different primary and secondary responsibilities in view; for, the State, the shareholders, the management, the creditors, suppliers, other employees and the community at large that the company seeks to subserve in different capacities—mainly as an agent of economic progress are but one side of the coin. The other side relates to the internal administration of the company for developing the capabilities that make all this possible. It is thus imperative that the corporation remains on track while it strives to achieve its avowed objectives.

Managerial Deviance in Corporations

Since the company is a product of the law, it has the status of Caesar's wife. The company as an incorporeal entity cannot commit any crime. The managers who are responsible for conducting the state of affairs of the company are directly responsible for all acts supposedly on behalf of the company but those going the interests of the company. Ethical considerations thus apply to the managers more than to the company. Absence of a clear understanding of this position is at the root of many a misconception, like for example 'lifting the veil', that has come to rule the roost. The numerous instances of managerial misdemeanance that have come to light in different countries have centred on the following, among others:

i. Accounting misclassification involving fraudulent reporting;
ii. Excessive concern for showing profit when there was none, through various means such as inflation of gains and deflation or even total sidetracking of losses;
iii. Magnification of profitability in quarterly reports duping unsuspecting shareholders and regulatory bodies;

iv. Indulging in unacceptable practices such as creating a cobweb of inter-connected organizations and having dubious transactions for showing an operational picture more attractive than reality;
v. Insider trading practices leading to artificially jacking up share prices in collusion with the reputed share analysts who are prodded to draw a rosy picture in the face of an impending doom;
vi. Influencing the auditors, or even colluding with them, so that no unfavourable reports or unclean certificates are given on the annual financial statements, as indeed happened in the case of M/S Satyam Computers, nicknamed Indian Enron;
vii. One could add to the aforesaid list the tendency of members of the upper echelons of management of companies to have disproportionately high remuneration and perks irrespective of whether the corporation was doing well or otherwise;
viii. Rampant mis-utilization by the top, and even middle management, of the privilege of accesses to sensitive records and facts bypassing many of the regulatory measures for personal gain, monetary and otherwise; and
ix. Risky bets, political infighting, lax government regulations and bad decision making—wreaking havoc on the world financial system, felling Lehman Bros., Bear Stearns, Goldman Sachs and Merrill Lynch almost Overnight (Cf. *House of Cards: How Wall Street Gamblers Broke Capitalism,* Penguin, 2009).

Addressing Right Issues

In the circumstances, Corporate Governance Codes have sought to address these issues on the basis of devising systems that could effectively oversee the operations which embraced strengthening internal control systems, assessing the nature and effectiveness of statutory audit by way of appointing audit committees, looking after the shareholders' interest, strengthening the Board functions through induction of independent directors and above all, underlining the truth and fairness of the recording of liabilities and, in the process, of asset valuation. Company managers are required to explain their standpoints vis-a-vis the observations made by these committees and both these sides become a part of the governance reports annexed to the annual reports. The stock exchanges have been showing much greater sensitivity in the scrutiny of the periodical reports submitted by the listed companies ensuring that errant management is taken to task and prompt corrective action initiated. Unfortunately, a large chunk of the corporate sector remains outside the focus of the governance codes. This is because of preponderance of non-listed companies and a dominant position of the private limited companies. Listing with the stock exchanges is a phenomenon that has been grossly misunderstood. It needs emphasis in this context that once companies are incorporated and have become functional, their linkage with the proceedings in the stock exchanges is minimal; the share capital remains unaffected irrespective of what goes on in the stock exchanges. Apart from the initial subscription, companies have nothing much to do with them. Shareholders, in general, have come to depend more on market capitalization than on dividend; in fact for distribution of dividend, shareholders on the 'record date' are those who are entitled receive it. The number of times a share changes hands is numerous. The prevalent approaches before infusion of globalism were to rely more on dividend which would come mainly at the year-end, at times even half-yearly. These approaches saved India's bourses from a crash experienced in other countries of the West and even East.

The Counter Measures

The components of corporate governance comprise the counter measures that seek to straighten both the tracks and the activities on these tracks. The measures contemplated in these components are essentially reactive in nature based as they are in the nature of deviance that came to notice in different corporations. It has not been considered that the shenanigans deployed by the tricksters have not always been of the same types. Many of them have been beyond the imagination of either the law or the regulatory bodies, while the time taken in tracking the miscreants down has been considerable. Literally the authorities became wiser after the event while the intricacies of deceit required a lot of time to unfold. Some of the trickeries required high level expertise to understand and decipher while the others were quite simple and easily apprehended. Many of the tricksters were highly reputed people while others had criminal record behind them. In some cases the slips were known but hardly any action was taken by the corporate authorities till it was too late. A cat and mouse game has been more than visible but the irresponsible actions of management and others have multiplied without bounds—often in collusion with outsiders. Corporate governance codes underscore both the non-negative aspects and the positive aspects of the measures contemplated. It is in these circumstances that a close look at what constitutes corporate governance becomes relevant with particular reference to the fact that the corporation is a social institution and the shareholders or managers are not owners of corporate property as long as the corporation is a going concern. It is necessary to understand and appreciate that a corporation has a discrete interest of it own—discrete from all others indicated earlier. Corporate managerial misdemeanor seriously dents the character of distinctiveness of its identity marked by perpetual succession and collectivization of capital. Corporate perpetuity has to be healthy to be real and meaningful. No doubt, this fact makes a serious case for developing responsive culture and values. This issue is indeed central to all considerations regarding the quality and character of corporate governance in practice. Questions regarding the efficacy of the governance codes have been raised in many quarters as to whether the elaborate codes have in fact been able to realize their objectives. The visible impact of all the regulatory paperwork has not been as desired despite the volume and the frequency of amendments. Corporate governance is, however, not synonymous with corporate management; it seeks exercise surveillance over the whole gamut of management functions to keep them on track.

The Cadbury Report

Report on the Financial Aspects of Corporate Governance, December 1, 1992, chaired by Sir Adrian Cadbury set the pace for similar measures to keep the company managements virtually in the leash, through bringing into play codes of corporate practices and conduct that were designed to apply centripetal forces to counter those overtly centrifugal. The Cadbury Committee underlined that every public company should be headed by an effective board which can both lead and control the business. Within the context of the UK unitary board system, this means a board made up of a combination of executive directors, with their intimate knowledge of business, and of outside, non-executive directors, who can bring a broader view to the company's activities, under a chairman who accepts the duties and responsibilities which the post entails. On the appointment of non-executive directors on the board of a listed public company, the Committee was quite emphatic to point out that the process of selection must be objective. Given the importance of their distinctive contribution, the Committee avers that the non-executive directors should be selected with the same impartiality and care as senior executives and that their appointment should be a formal selection process, which will reinforce the independence of non-executive direct ors and make it evident that they have been appointed on merit and not through any form of patronage.

Nomination Committee a la Cadbury Committee

The Committee regards it as good practice for a nomination committee to carry out the selection process and to make proposals to the board. The Committee further states that companies have to be able to bring about changes in the composition of their boards to maintain their vitality. Non-executive directors may lose something of their independent edge, if they remain on a board for too long. Furthermore, the make-up of a board needs to change in line with new challenges. Therefore, the Committee recommends that non-executive directors should be appointed for specific terms. Their Letter of Appointment should set out their duties, term of office, remuneration and its review. Reappointment should not be automatic, but a conscious decision by the board and the director concerned. The Committee stresses that the board of directors should meet regularly, with due notice of the issues to be discussed supported by the necessary paperwork, and should record its conclusions. The Committee recommends that boards should appoint remuneration committees, consisting wholly or mainly of non-executive directors and chaired by a non-executive director, to recommend to the board the remuneration of the executive directors in all its forms, drawing on outside advice if necessary. Executive directors should play no part in decisions on their own remuneration. Membership of the remuneration committee should appear in the Directors' Report. Regarding the audit committee, the Cadbury Committee observes that since 1978, the New York Stock Exchange has required all listed companies to have audit committees composed solely of independent directors and the 1978 report of the American Treadway Commission concluded that audit committees had a critical role to play in ensuring the integrity of US company financial reports. While experience of audit committees in this country (UK) is shorter, it is encouraging, and around two-thirds of the top UK listed companies now have them in place. Experience in the United States has shown that, even where audit committees might have been set up mainly to meet listing requirements, they have proved their worth and developed into essential committees of the board. Similarly, recently published research in the United Kingdom concludes that the majority of companies with audit committees are enthusiastic about their value to their business. They offer added assurance to the shareholders that auditors, who act in their behalf, are in a position to safeguard their interests, taking care of the centrifugal forces that lark both within and outside the corporate organization under different garbs and complexions. Some recent instances have, on the contrary, proved that this reliance on auditors was misplaced.

The Audit Committee as Contemplated by the Cadbury Committee

The Committee therefore recommends that all listed companies should establish an audit committee. It is further recommended that:

a. audit committees should be formally constituted to ensure that they have a clear relationship with the boards to whom they are answerable and to whom they should report regularly. They should be given written terms of reference which deal adequately with their relationship, authority and duties, and they should meet at least twice a year;
b. there should be a minimum of three members which should be confined to the non-executive directors of the company and a majority of the non-executives serving on the committee should be independent. Membership of the committee should be disclosed in the annual report;
c. the external auditor of the company should normally attend audit committee meetings, as should also the finance director; as the board as a whole is responsible for

the financial statements, other board members should also have the right to attend; the committee should have a discussion with the external auditors, at least once a year, without executive board members present, to ensure that there are no unresolved issues of concern;

d. the audit committee should have explicit authority to investigate any matters within its terms of reference, the resources which it needs to do so, and full access to information; the committee should be able to obtain external professional advice and to invite outsiders with relevant experience if necessary;
e. the audit committee's duties should be determined in the light of the company's needs but should normally include:
    a. making recommendations to the board on the appointment of the external auditor, audit fee and any question of resignation or removal;
    b. review of the half-year or annual financial statements before submission to the board;
    c. discussion with the external auditor about the nature and scope of the audit, co-ordination where more than one audit firm is involved, any problems or reservations arising from the audit, and matters which the external auditor wishes to discuss without the executive members present;
    d. review of the external auditor's management letter;
    e. review of the company's statement on internal control systems prior to endorsement by the board; and
    f. review of significant findings of internal investigations
f. where an internal audit function exists, the audit committee should ensure that it is adequately resourced and has appropriate standing within the company; the external audit programme to be reviewed by the audit committee, and the head of the head of the internal audit should normally attend its meetings;
g. the Chairman of the audit committee should be available to answer questions about its work at the Annual General Meeting.

N.B. Specific directions have been given for appointing separate audit committees for better surveillance qualities. All these recommendations were made in good faith, with little or no anticipation of different ways in which deliberate *corporate deviance* was gathering momentum in England and elsewhere, high-level planning and execution marking the letting loose of the shenanigans.

Effectiveness of Separate Audit Committees

The Committee has stressed that boards should appoint audit committees, rather than aiming to carry out their functions themselves. A separate audit committee enables the board to delegate to a sub-committee a thorough and detailed review of audit matters, it enables the non-executive directors to contribute an independent judgment and play a positive role in an area for which they are particularly fitted, and it offers the auditors a direct link with the non-executive directors. The ultimate responsibility of the board for reviewing and approving the annual report and the accounts and the half-year report remains undiminished by the appointment of an audit committee, but it provides an important assurance that a key area of a board's duties will be rigorously discharged. Properly constituted audit committees are therefore considered to be an important step in raising standards of corporate governance. However, their effectiveness depends in no small measure on having a strong chairman who has the confidence of the board and of the auditors, and on the quality of the non-executive directors. Membership of an audit committee is a demanding task that requires commitment, training and skill. The directors concerned need to have sufficient understanding of the issues to be dealt with by the committee to take an active part in its proceedings. This is a reason why committees should, if it is appropriate and within their authority, be able to invite outsiders with relevant experience to attend meetings. The Committee insists that external auditors should be present at the board meeting when the annual report and accounts are approved and preferably when the half-yearly report is considered as well. Indeed this insistence comes from intimate knowledge of what goes on in the board meetings. This, however, presupposes that auditors perform true to their calling and they have the ability and experience to decode the possible trickeries.

The Greenbury And other Reports

While the Cadbury Committee addressed concerns in corporate performance and financial reporting with key recommendations focussing on control and reporting functions of boards, taking a perspective on board performance and governance, the explicit stress being on financial stakeholders, the Greenbury report (1995)—on directors' remuneration dealt with issues related to the large remuneration packages that had been awarded to some directors. The Greenbury report specified the information that should be made available by the company in its annual report. The report, in particular, has required the linking of executive directors' remuneration to company performance and to disclosure, in the annual report, of the directors' remuneration packages including pension entitlements. It may be mentioned in the above context that the Cadbury and Greenbury Committees made observations that called for review and integration for consolidation, easier comprehension and better applicability by way of evolving a set of principles and codes. Hampel Committee directed its efforts to this end resulting in the 'Combined Code of the Committee on Corporate Governance', published in 2000 which incorporated the recommendations from both the

Cadbury and Greenbury Committees. A new Combined Code was published in July 2003, that highlighted the role and effectiveness of non-executive directors with further emphasis on formal, rigorous and transparent procedures for appointing new directors. The Combined Code required that the board should have both executive and non-executive directors. The directors should be provided with quality information in a timely manner to enable them to fulfill their responsibilities. Appraising executive directors on an annual basis by the board and assessing the performance of its directors and committees, with a provision for regular intervals for the re-election of directors and their remuneration in the cases of executive directors, depending on their performance on the basis of objective criteria. All of the above and subsequently appointed Committees—such as the Turnbull Committee, Higgs Committee and Sir Robert Smith Committee—had in view the need for companies' effective compliance of the Codes prescribed, and in their turn, the Codes of Governance have all this while remained under a continued scanner to make them up to date, practical and workable, dealing as they did, with such issues as independent directors, independence of auditors, ways of making the audit committees more effective, disaggregation of the roles of company Chairman and CEO, manning the boards with adequate number of independent, non-executive, directors and sensitive, responsive and adequate disclosure of performance details with periodicity indicated by SEC, SEBI and others. It may be recalled in the above context that separating the roles of Chairman and CEO is not new or novel; theories of organization stressed long back that Board constitution could be of two types, namely, Policy Board and Functional Board. The former type has been under focus in the Corporate Governance format. In the earlier scheme of things, the Board was supposed to be concerned with gauging the business environment, formulation of policies, which are but guidelines for managerial action, and the responses that the organization should generate to combat the externalities. The aura of Ordway Tead, and of the enunciations in his *Art of Administration,* has given way to executives donning the colours of Board members. Functional Boards came into vogue much later than Policy Boards and the Managing Director was in the earlier regime supposed to be the liaison between the Board and the management.

Disclosure Issues

With respect to disclosure of financial details, the Code clearly required that the board should take the responsibility to present a balanced and understandable assessment of the company's position and prospects. It was also underscored that an effective internal control system should be sustained to protect shareholder investment and company assets. The companies should use their AGMs as a means of communication with investors and engaging their fruitful participation in the proceedings. In the USA, UK and other advanced countries, a critical role is played by the stock market analysts, the institutional shareholders, the mutual funds and also the knowledgeable retail shareholders not only by studying the performance details minutely and offering comments but also by participating in voting on different issues that call for such action. The conditions prevailing in the developing countries are rather different as brought to the fore in different contexts. An additional factor that works against exercise of rational choice relates to the imperfect market conditions made more so by the prevailing dominance of family control underscoring veiled operations, secrecy and inefficient practices in different spheres of industry and business. This kind of approaches has been noticed in China and South Korea as also in Japan. Contrarily, in the USA and the UK as also in different European countries, the prevailing operational phenomena in companies have remained under watch and several Committees have sought to bring to the fore the existing inadequacies and suggest ways of dealing with them. This has meant that several Committees have been appointed over time to go into various connected issues. The relevant authorities have also been anxious to integrate the findings of the individual Committees into a set of combined codes, which have themselves been re-examined and revised to properly align them with current concerns and requirements. The process is still on, even though the critics allege that a fault-free governance system has till now eluded the reform seekers. It will thus be interesting to refer to their main contentions and recommendations as they mainly address different concerns of relevance for good governance, but not necessarily for good management. The former relates to security of funds deployed and the propriety of managerial action, while the latter concentres on profitability, competitiveness and innovation, projecting into the future. So far, these issues have not had the required attention of the powers that be.

Discrete Contexture

It may appear that many of the issues raised are repetitive in nature; they indeed are, but their operational contextualities are discrete as they address the typical conditions and prevalent practices in each country, within the framework of the corporate laws and the regulatory measures in force during the period under consideration. Country-differences and the operating systems in vogue have thus come in the way of evolving an internationally acceptable and harmonious Code of Corporate Governance, synchronous and compatible with the tenets of GAAP, GAAS and IFRS, accommodating not only the internal management control systems but also disclosure of relevant information. Incidentally, all these technicalities have assumed the character of discrete *specialism*, engaging the attention of experts in different countries including our own. Alongside all this, managers in different organizations in almost all countries have complained that so many regulatory measures have made fun with their very purport while missing their targets by miles. An elaborate discussion on these questions is beside the point here. It is, however, relevant to point out that there is a raging debate on some of these issues especially with reference to their cost-effectiveness in the specific context of the numerous instances of corporate deviance reported from different countries, despite the measures to identify, chase and bring the miscreants under leash, on one hand, and to foreclose the deviant designs, on the other. There is an important issue that seems to have been underplayed all this while. It relates to the fact that corporate governance is more concerned with the security of investments than with the deployment of funds for profit. Mention of this aspect so far has been no better than casual. It is axiomatic that managers 'make the future today' and in so doing, managers have to face the risks and uncertainties attending on the *decisioning* phenomena, the strategic format that they have to prepare to combat market belligerence, produce goods and services in anticipation of demand and go whole hog for innovating for staying ahead of competition. Dependence on chance is a part of the game and environmental scanning and response management would call for undertaking risk in dealing with uncertainty of outcome of decisions turned into management, tactics, policies and strategies.

SEBI Act and Companies Act Must be Endowed With More Teeth.

There is an overt, serious, contrast in the pulls that corporate governance implies at one end of the spectrum and the pushes that innovative steps generate at the other end. These pulls and pushes tend to bring the thrusting enterprises into a sleeping state, affecting performance. Excessive stress on independent directors and chairmen has also mired corporate operations into deceitful practices just to skirt the requirements of the governance system. A recent research study revealed that many of the so-called independent directors are not independent at all; quite a few of them do not have the requisite qualifications and experience; several of them are too old for sustained workload and intellectual alertness that corporate governance implies; and, in many cases, their contribution has added only questionable value [Cf *The Statesman*, Kolkata, 21 May, 2009, p.7]. Corporate governance tenets matter only for the listed companies, and listing with the stock exchanges and SEBI is not compulsory. SEBI has lacked necessary teeth for stalling practices considered undesirable. Unless the SEBI Act is amended to equip it with necessary powers, the regulator would not be in a position to cleanse the Augean Stable, that the Indian corporate sector in fact is. The likelihood of throwing the baby with bathwater cannot also be ruled out altogether in the said circumstances. The regulator has so far been only chasing miscreants but has lacked teeth to foreclose malpractices affecting corporate governance system envisaged under Clause 49 of the Listing Agreement. Clauses such as those related to delisting if a company has not earned profits for three years consecutively, also appear out of line insofar as the regulatory body must inquire—even inspect—why the company has failed to earn profit, especially when the externalities are not bellicose; the management must be changed in such a case. It is relevant to mention in the above context that the Companies Act and the SEBI Act must be made more responsive in this respect, considering that there are large stakes involved in corporate affairs apart from those of shareholders and employees. In this regard it may also be underlined that dealings in the stock exchanges and the Initial Public Offerings should not be mixed up. They call for discrete ways of dealing with the typicality of each.

Revival of the Office of the Controller of Capital Issues

Greater effectiveness may ensue if IPOs are brought under the control of the Controller of Capital Issues, an institution that existed earlier, but was abolished during the liberalization regime. The revival is called for in view of the repetitive scams that could not be prevented by the existing institutional set-up with limited powers given to the second level institutions and absence of necessary orientation. Equipping the CCI with adequate powers and its readiness for taking expeditious action could stall many of the scams that occurred during the last two decades or more. Even the IPO of Reliance Power has offered quite a few object lessons with reference to unloading of shares subscribed by institutional investors under the book building process, while the earlier system of subscribing to shares in four doses i.e., application, allotment, first call and final call, warranted reconsideration, more so for the retail investors. This would mean that with the span of focus being smaller, greater depths could be explored by both SEBI and CCI. While the major concern in such a case may be the listed companies with SEBI, the CCI would have only IPOs as its major focus. On the other hand, SEBI's span of focus could be expanded with all public limited companies required compulsorily to be listed for submitting themselves to the scrutiny by the regulator with powers to initiate inquiry suo motto. Scams with regard to both IPOs and the stock markets have surfaced during the last two decades. A passive approach has so far ruled the scene that requires total change. Giving primacy to the shareholders is illogical because shareholders do not own corporate property, as long as the company is a going concern. Corporate property is public property and the state has a direct stake and immediately relevant role in protecting it. The corporate citizen has a right to function as one, free from the numerous shackles of the law and the regulations, despite its incorporeal character. A good Corporate Governance system can hardly ignore or undermine the question of a company's deriving sustenance from its operations, which is a whole world of problems and prospects in itself. Ensuring the right corporate culture and integrity is very much an internal matter of the management and men, and can hardly be infused by official diktat. And the company is a perpetual being which cannot die as a natural course; it can only be killed according as laid down in law, i.e., dissolution. Thus, under the obtaining scheme of things, the convergence of good corporate governance, on one hand, and innovative, effective, management, on the other, do not appear to be automatic and consonant. Many of the steps taken by SEBI and those contemplated under the Companies Act do not appear to be quite in the fitness of things as these measures contemplate chasing miscreants rather than catching them in the act. Where speed is crucial, a lot of time is invariably taken for deciphering questionable practices and for taking appropriate corrective and preventive action.

Imperatives of Assessing Governance Quality

The convergence of the two issues at present impacts only distantly, if they are not at loggerheads in their present avatars. It would be an interesting and instructive area of inquiry, country-wise, industry-wise and area-wise, highlighting the cost-benefits. The details of costs of the independent directors and chairman, the work done by them and the benefits accruing from their activities are not disclosed in the annual reports. The corporate governance report as an appendix to the annual report reads not as much to vindicate the purport behind it as to add rather unpurposive detail regarding the particulars of the independent members, the number of meetings held and attended by individual members and the fees given to them. No indication is available regarding the work done by them letting the companies benefit from their expertise and experience. It may be pointed out at the end that excepting the nomenclature, none of the issues raised in corporate governance was unknown before. As an antidote to errant management behaviour, governance codes have fallen on their faces, while the hullabaloo has grown both in spread and impact. The Sarbox, on the contrary, has jerked the other end of the stick that took for granted that business success and staying ahead of competition were easy and automatic. The choking of managerial vitality and creativity has been an easy outcome. The actual quality of corporate governance has hardly shown much perceptible improvement, if one were to go by the repetition of the deviant practices in companies surfacing in different countries. The rhetoric and volume apart, a systematic examination of the quality of the prevailing corporate governance systems has been few and far between, leave aside the required transparency in such assessment.

The Contents of Corporate Governance

That the contents of corporate governance are designed to oversee the functions of corporate management is attested by the excessive dependence on the independent directors, the imposition of the audit committee on the usual system of internal audit and statutory audit, and various other committees intended to stall drainage of funds to unwanted channels. First things first. The independence of the much vaunted independent directors has been seriously called to question in the face of tall claims about their utility in practice. Empirical evidence, educed by research firm Prime Database, Mumbai, with regard to the companies under clause 49 of the listing agreement concerning SEBI and the stock exchanges, as alluded earlier, suggests some interesting facts:

> "Nearly seventy per cent of all independent directors are 'home' members who are natural allies of the promoters and are not independent in any sense". The observation is based on a close study of the profiles of independent directors of 2244 companies listed with the Bombay Stock Exchange. Only 15 per cent of these independent directors are capable of adding value. 48% of these independent directors, numbering 6443, are above the age of 60. As many as 1380 of the independent directors are above the age of 70, 199 are past 80 and 8 are past 90". The efficacy of the contribution of independent directors can be imagined. The conditions obtaining in other countries may not be as bad. The second issue is equally disconcerting. The Sarbanes-Oxley Act, 2002 in fact does contain provision for audit of the internal controls. All this undermined the work of the internal auditors in the face of good work done by the internal auditors. For instance, Sherron Watkins and Cynthia Cooper did report to the Audit Committee of Enron and WorldCom respectively that everything was not in order in the two reputed corporations and that implosion was only a matter of time. Unfortunately, no action was taken on these reports, nor was it possible for the miscreants to undo the mischief committed by those at the helm. When top management was jerked into action, it was too late and things were out of their hands. On the other hand, these ladies were subject to insult and ignominy with a tacit threat of losing their jobs. Both Kenneth Lay and Bernard Ebbers were indicted for their misdemeanour. Kenneth Lay died of heart failure and Ebbers was found weeping in the court room. The case of the 'Enron of India', Satyam Computer Services, has also brought to light many an inadequacy in accounting and audit systems and practices that require a thorough overhaul. In fact, such reforms would be tantamount to virtually reinstating the status that accounts and audit were given at the outset, when the generally law on companies was enacted in England. Audit surveillance was never thought of as a matter of routine, insofar as it was expected to safeguard the interest of all the involved parties—insiders and outsiders—including the company itself. As stated earlier, the company as an acknowledged citizen does have an interest of its own, for nurturing and cultivating its healthy perpetuity, derived from generation of surplus from its operations. Short-termism is anachronistic to the corporate concept. The once celebrated corporations in different countries were led to apply for insolvency. Yesterday's flourish became today's nightmare. What a pity!

An Insight into Ethical Governance: A Framework for Nurturing Morality and Values

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"Whether men understand it or not, they are impelled by that power behind to become unselfish. That is the foundation of morality. It is the quintessence of all ethics, preached in any language, or any religion, or by any prophet in the world. "Be thou unselfish", "Not 'I', but 'Thou'" – that is the background of ethical codes."

—Swami Vivekananda

Introduction:

Over the last few decades ethical governance has attracted a great deal of public interest because of its apparent importance for the economic health of corporations and society in general. A debate is now converging in favour of ethics which involves important aspects of business, society, administration, politics, media, institutions, family and personal life. Ethical governance has become an important issue in the context of unethical behaviour and malpractices by the holders of high political offices and corporate houses. In any country politicians and high corporate designation holders are considered as the stimulants and leaders of significant socio-economic development. Because they possess enormous power and authority than the ordinary people and have the requisite capabilities of making decisions relating to the use of scarce national resources, public funds etc. In case of business, especially accounting and finance is perhaps the only business function that accepts responsibility to act in public interest and therefore this area should be governed ethically in order to protect the interests of the stakeholders. Theoretically ethical governance is an important part of code of conduct of any accounting and management professional and various global surveys have also ranked them high in terms of professional ethics. However various scandals and malpractices witnessed worldwide during the past few years have put a serious question mark on the roles of the business executives, statesmen, government's officials, accounting and management professionals. Over the past few years, the headlines of almost all newspapers in particular portrayed the sad stories of corporate and political ethics or lack thereof. Examples of long list of corporate scandals scattered throughout the world include Enron, WorldCom, Merrill Lynch, Martha Stewart, Tyco International, Global Crossing, Quest Communications, Xerox, Adelphia Communications, Computer Associates, Parmalat, Putnam, Boeing, Rite Aid and very recent Indian pride- Satyam Computers. Corporate failures, dubious accounting practices, falling stock markets, abuses of giant corporate power, numerous criminal investigations indicate that the entire economic systems upon which investments have depended is showing signs of stress that have clearly undermined the investors' confidence and faith. Indian politics is also not lagging behind any other country relating to the issues of scandal involving ethics and morality and has almost created a record in the history of scandals. The contributions of Indian politics in different political scandals (raised in past few years and until recently) which turmoil the entire country include scams relating to Boffors Cannon, Coffins for Indian Army, Fodders Scandal ('Chara Ghotala') and very recent Commonwealth Game, 2G Spectrum and Coal Block Distribution scandals etc. In the backdrop of such scandals, unethical behaviours, degradation of morality in general and malpractices, there has been a renewed emphasis on the study of ethics and ethical governance.

Anatomy of Ethics and Ethical Governance:

- **Ethics**—Ethical governance is a combination of the words 'ethics' and 'governance'. The word 'Ethics' is derived from the ancient Greek '***Ethikos***'- meaning of which is essence of values and habits of a person or group. The term ***ethics*** describes a set of principles that provide a framework for conduct. Ethics represents the kind of action that is good and acceptable (Lawton 1998). Ethical codes are aimed at maintaining high ethical standards in government service and increasing public confidence in the integrity of public officials and employees (Zimmerman 1982). It also involves right and wrong, good and evil and acting with responsibility. It imbibes within itself both individual behaviour and community culture. Geret argues that sound ethics is good business in long run.

- **Governance**—According to Concise Oxford English Dictionary (11th Edition) governance is 'the action or manner of governing'. The term 'governance' is widely used in connection with social sciences, economics and political science. Tiihonen (2004) regards governing and governance as processes of order which aim at bringing harmonisation and stability to the world. In practical terms, governance is used mostly in the discourse of public sector reforms. The basic nature of governance is the coordination and governing of complex networks of many different participants. Governance is interaction with a politically determined framework for the coordination of activities to produce the best possible conditions for economic and social development, a good life for citizens, and national success. Participation is a central element in governance. The transition from traditional 'governing' towards new 'governance' includes new kinds of networking practices. The new governance model gives more responsibility to individuals, citizens and market actors. (Peters 2001.) From the perspectives of business and society the challenges for good governance are that managers, political leaders and officials of central and state Governments should adapt to the external environment and organisational changes, cope with the contradictory interests and expectations of different interest groups/ stakeholders, enhance the customers' satisfaction and citizens' well being. In addition to honesty, morality and efficiency, trust is an essential part of ethical governance. For citizens, trust means a general confidence in politicians and public authorities and that for the business stakeholders means confidence in business executives and employees.
- **Ethical Governance (EG)**—It refers to the processes, procedures, culture and values which ensure high standards of behaviours. Very often it is held that business is not bound by any ethics other than abiding by the laws. Milton Friedman, pioneer of the view, held that corporations have obligation to make profit within the framework of the legal system and nothing more. He made it explicit that the duty of the business leaders is "*to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom*". EG provides a basis for explaining why legal compliance mechanisms are insufficient in dealing with fraudulent practices and may not be addressing the real and fundamental issues that inspire ethical behaviour. The current environment of failures of corporate responsibility, corporate frauds and scams are not only failures of legal compliance, but more fundamentally failures of right (ethical) thing.

Ethically good or acceptable behaviour is often defined in terms of justice, fairness, equality, and integrity. Thus, ethical governance is a normative expression and not a purely descriptive one. The concept of EG also implies a value assessment and is thus value-laden. It is precisely because of this value-laden property that different organisations in both the public and private sectors often use the terms ethical governance/ ethical management as labels or advertisement slogans for their marketing purposes in the labour market or to gain economic/ political benefit. The use of the adjective ***'ethical' does not guarantee, of course, the true ethical goodness (i.e., justice, fairness, equality and integrity) of governance.*** Thus, the term 'ethical governance' should be used for actual systems of governance only when the appraisal is based on a critical and unbiased evaluation of their goals and means.

Why Ethical Governance is important for Organisations and Government:

Mahatma Gandhi said that "*trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one*". *He also added that "a businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society*". Society bestows upon businesses the right and authority to use national resources (physical, social and human), land and other factors of productions. In return, society can expect that organisations will enhance the general interests of community, consumers, investors, employees i.e. the stakeholders. It may also expect from organisations to honour existing rights and limit their activities within the boundary of justice. In countries like India where people's democracy exists, Government is basically "*for the people, by the people and of the people*". Therefore bureaucrats, Government's officials, representatives to the Parliament, State Legislatures, local bodies, Panchayati Raj Institutions (PRI) etc. – constituents of various Governments and statutory bodies act as the people's servants. Ministers, people's representatives (like MLAs, MPs and local councilors) and Government's officials should be guided by the principles of ethical governance, as they should always take care of the citizens of the country, enhance their well being and act together to achieve socio-cultural and economic development. In the context of high ethical and moral degradation the concept of EG has become important because of the following reasons:

- **Greater productivity and strong team work:** Ongoing attention and discussion regarding the work place values act as stimulants for openness, integrity and community. All these are the ingredients of the strong teams in the work place. EG helps to establish strong alignment between the values of the employees and that of the organisation. Such alignment results in strong motivation, high morale and better organisational performance. All these stimulate organisational productivity and efficiency and effectiveness in Government's schemes/ projects.
- **Social Improvement:** EG acts against exploitation of workers, child labours, sexual harassment of women employees at the work place, gender bias and all other unethical behaviour. Only because of it, businesses place high values on ethics, equal rights and fairness. Proper implementation of EG in all sectors is strongly required for improved society.
- **Avoidance of criminal acts and injustice:** It helps to detect unethical issues and legal violations early so that they can promptly be addressed, reported and controlled. It also helps to avoid some financial implications and losses due to violation of rules and regulations such as fines, penalties, compensation etc.
- **Easier change management:** During the time of change, in absence of clear moral compass it becomes difficult for the leaders (political and business) to resolve about what is right or wrong. Strong EG assists to maintain consistency in their actions in such a situation.
- **Managing values:** It helps identifying the values and ensuring that organisational or political behaviours are aligned with those values. Value management is a precursor to establish quality management, strategic planning and diversity management. For example, Total Quality Management (TQM) includes high priority on certain operating values such as trusts amongst stakeholders, reliability, performance, measurement and proper feedback.
- **Acting against discrimination:** Discrimination is treating people differently. Employment discrimination means treating one person better than another because of his/ her age, religion, gender, race, caste or other protected class status. Discrimination is mainly faced by women, minorities, physically challenged and down trodden people. Guided by EG, Government has enacted different statutes that act against the above reasons. Not only Government, several corporate bodies and other organisations have been taking initiatives for opening up scopes for physically challenged, establishing principles of equality in work place and appointing employees from minority and socially backward communities.
- **Resolving conflicts of interest:** A conflict of interest is bound to come among the top most business executives, Governments' officials and political leaders. Conflict of interest exists when a person must choose whether to advance his/ her own interest or those of the organisation/ general public. Bribe is an example of conflict of interest which benefits an individual or group of individuals at the expenses of the organisation or society. Conflicts of interest need not always be financial. Ethical dilemma does not arise in case where only one way is left out. It arises where there exist several alternative choices and all of them are right. Ethical governance helps in selecting appropriate option (although all are right) which maximises the overall benefits at the expenses of minimum costs.
- **Promoting strong image:** Henry Ford once commented that "*A business that makes nothing but money is a poor kind of business*". Strong public image and goodwill are essential for both politicians, business executives. Because politicians/ governments (composition of politicians of winning parties) are responsible to the general public for rendering services to them as their servants and business leaders are responsible to satisfy the customers by their products or services. Without good public image and goodwill they are worthless. An organisation that concentrates on ethics can portray a strong and positive image to the public. People see them as valuing human more than profit. Strong public image helps to generate profit in long run, ensures long term existence and continuity of the government, improves trusts in relationships between individuals and groups etc.

Ethical Governance and Similar Other Areas:

Ethical Governance and Legal Governance:

Laws are about what is lawful and unlawful. Laws are sets of standard principles that a business must follow to remain 'legal' in the eyes of law. Governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions. The difficulty in legal governance is that compliance of legal governance does not always ensure ethical governance. Many abuses, frauds and malpractices that have enraged the public and obviously the countries are entirely legal. For example, using financial engineering, companies are able to file misleading financial statements which are in compliance with the GAAP. There has been an erosion of public confidence in accounting and auditing profession worldwide. Experts like Brief et al (1997) observed that 87 % of the accountants surveyed were willing to misrepresent the financial statements in at least one case when presented with seven financial reporting dilemmas. These show that accounting regulation is not sufficient and fool proof. There is a requirement of more stringent applications of standards. The problems of law, accounting and medicine professions are not only endemic to the society. Rather they are the parts of many problems in the wider society involving sports, business, politics, Governments and so on. Many of us are more concerned about the lack of ethics among businessmen and politicians since they execute most financial transactions and policies in the financial system of any country where there are greater incentives of unethical conduct. But in reality such lack of ethics is pervasive among all of us. Study by Weisul and Merritt (2002) consisting of a sample of 1,100 college students on 27 United States campuses revealed that although they were disturbed by the corporate scandals (almost 84 % believed that US is having business crisis and 77 % of them think that CEOs should personally be held responsible for it), 59 % of the same openly admitted that they had also cheated on a test. Legal governance- a necessary part of grater administrative or corporate governance has clearly proven to be inadequate in present days.

Laws and rules are enacted by the Governments, but ethics implicitly regulates areas and details of behaviour that lie beyond governmental control. Ethics reflects the philosophy about *what is right and wrong*. Ethics in business means that the business should be conducted according to certain self recognised moral standards. Legal governance is primarily concerned with conduct, whereas ethical governance talks about what we are and not just what we do. Law is jurisdictionally limited and thus legal governance may vary in one state/ country from another, whereas ethical values and governance are inclined to be more universal. In the following table differences between legal and ethical governance are set forth:

Table 1: Differences in Legal & Ethical Governance

Factors	Legal Governance	Ethical Governance
Main Objective	Geared towards preventing unlawful conduct.	Geared towards achieving responsible conduct.
Ethos	It regards ethics as a set of limits and something that has to be done.	It defines ethics as a set of principles to guide choices.
Method	It puts greater emphasis on rules and uses increased monitoring and penalties to enforce these rules.	It treats ethics as infused in business practice (leadership, core systems, decision making processes etc.).
Behavioural Assumptions	It is deeply rooted in Deterrence Theory which deals with how to prevent people from doing bad things by manipulating the costs of misconduct.	It is deeply rooted in individual and communal values (both material and spiritual).

Source: Paine L (1996), "Venturing Beyond Compliance", The Evolving Role of Ethics in Business, Report No. 1141-96-Ch, The Conference Board Inc., New York.

Ethical Governance and Corporate Governance (CG): According to J Wolfensohn, President, The World Bank, "*Corporate Governance is about promoting corporate fairness, transparency and accountability*". The practice of proper accounting standards is more relevant issue of good Corporate Governance. Despite some feeble attempts from various quarters, "corporate governance" remains an ambiguous and often misunderstood phrase. For quite some time it was confined only to corporate management. This is not so. It is something much broader and includes a fair, efficient and transparent administration and strives to meet certain well defined, written objectives. Therefore the concept of "Corporate Governance" can also be extended to administration of State and Central Governments. Now a question arises, is corporate governance is enough to judge a company's performance and reliability? Though everything look perfect from outside but the reality is even more complicated and biased in favour of management in case of many companies. Few of such examples are Satyam Computer, Enron, WorldCom etc. So, ***certificate is not all, the main thing is Ethics. The main issue is that how much a company is secured by applying ethical values***. Here the concept of "Ethical Governance" got immense importance. Corporate governance in a business without ethical outlook is a failure business. Because Corporate Governance is guided by several laws and regulations and Ethical Governance is guided by self recognised moral standards. If a business runs by following 'ethics' along with legal standard, then the chances of corporate frauds and scams will get reduced. The same principles also apply in case of Governments led by different political parties. If Governments are able to ensure establishment of ethical governance in all projects and schemes, chances of frauds and scams can automatically be reduced.

Ethical Governance- A Social Outlook:

Today major corporations promote their commitment to non-economic values under headings such as ethical codes and Corporate Social Responsibility (CSR) charters. Economist Adam Smith said, "*People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices*". Ethical Governance presents us with a great opportunity to differentiate from the competition in the market – to add value. A company which is known to be secure and run on ethical principles will be more trusted by customers, shareholders and investors, and it will be more successful than the less ethical companies. To maintain ecological balances in the society, ethical governance in business should be implemented. Ethical Governance has been viewed from several perspectives:

Responsibility towards Stockholders—

EG ensures fairness and transparency in trading practices and its fundamental objective is the enhancement of long term shareholder value while, at the same time, protecting the interest of other stakeholders. Several issues relating to EG towards shareholders include good dividend policy, rights and equitable treatment of shareholders, participating in decision making process, etc. Many organisations establish Compliance and Ethics Programs to minimise the risk that the firm steps outside of ethical and legal boundaries.

Responsibility towards Employees—

Fair wages and remunerations, better working conditions, fair working standard, labour welfare activities, proper training, reward system, instalment of grievance handling cell, right to involve in decision making process are the major ethics related areas toward employees.

Responsibilities towards consumers—

This area usually deals with the duties of a company to ensure that product and production processes do not needlessly cause harm. Improve productivity, improve quality, effective distribution system, offer product at reasonable prices, provide pre- purchase and post-purchase services, providing sufficient and necessary information about the product are the ethics based areas towards consumer. Product testing protocols have been attacked for violating the rights of both humans and animals. Most recently an awareness programme has been sponsored by ***Sahara Indian Cricket Team***, named as "***Sahara Q Shop***" to raise voice "***milayat ki khilaf jung***" against production and distribution of unhealthy foods. Since few goods and services can be produced and consumed with zero risk, determining the ethical course can be problematic. In some case consumers demand products that harm them, such as tobacco, drugs products.

Responsibilities towards Society—

Certain areas of responsibilities towards society include:

• Full utilisation of scarce resources.	• To improve the standard of living.
• Implementing several social welfare activities.	• To be pollution free and maintain ecological balance.
• Improve the efficiency of business operation.	

The business should indulge to produce goods and services which is environmentally safe and secured. Here the concepts of 'green marketing' got an immense importance.

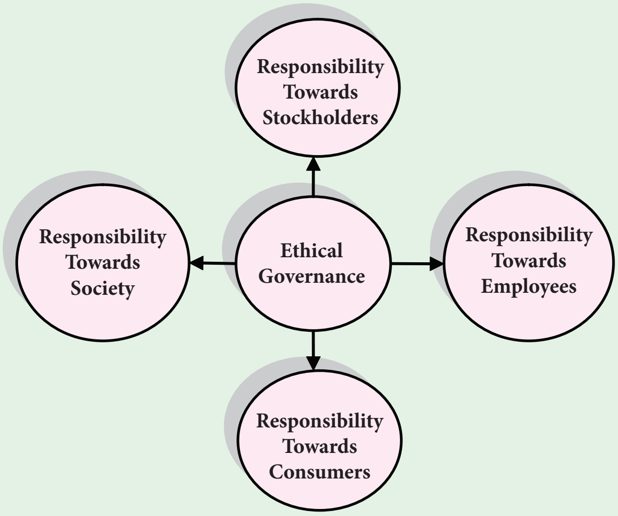

Figure 1: Ethical Governance—A Social Outlook

Ethical Governance in the Context of Various Issues:

The study of trust has become a high profile issue in business, government and the professionals over past 40 years (Dirks and Ferrin, 2002) and has become an international issue (Huff and Kelley, 2003). Trust within organisation and trustworthiness of organisation are built through ethical governance mechanisms. Knowledge, resources, performance focus, transparency, authentic caring, social capital and citizenship expectations create a basis for the ethical governance of the organisations. Some issues related to ethical governance are discussed below:

- A higher quality external audit function was positively associated with internal auditor's ethical decision making. More experienced internal auditors adopted a more ethical stance in some cases.

- The environment factors can lead employees to engage in unethical code of conduct. A competitive business environment may call for unethical behaviour. An example of this is the issue surrounding the unethical actions of the Saloman Brothers.
- There is an inverse relationship between hierarchical position and ethical perception among top, middle and junior staff. It is observed sometimes high ranked accountants perceive most ethical issues as less important than their sub-ordinates.
- Ethical issue arises out of international business transactions, e.g., bio-prospecting and biopiracy, the fair trade movement, transfer pricing.
- Foreign countries often use dumping as a competitive threat. Dumping is often seen as an ethical issue.

Relevance of and Legislative Support to Ethical Governance in India:

Some people think ethical governance as an extension of the corporate governance. In reality it applies to all spheres of governance. Among various types of governance such as, administrative, corporate, electronic, legal and social governance; ethical governance is the most important as it is closely related to human values and virtues. Existence of corporate governance does not at all guarantees that everything is ethically governed. In India ethical governance has become important in recent time and several Acts enacted either by State or Central Governments support introduction of ethical part in governance structure.

- **Clause 49 of The Listing Agreement of Securities & Exchange Board of India (SEBI)**—It mandates a listed company to adhere to corporate governance norms. Although it is not applicable to non-listed companies, many companies have adopted corporate governance in their own interest. It mainly deals with the full disclosure- a principle which has an ethical flavour. It mandates formation of the Board of Directors where independent directors will be the majority. The Board shall lay down a code of conduct for the members and senior management. All persons shall comply with the code on an annual basis and Annual Report shall contain a declaration to this effect signed by CEO. Formation of **Audit Committee** is a step forward towards ethical governance. In Audit Committee all the actions are evaluated in the presence of internal, statutory auditors, chief financial/ executive officer (CFO/CEO), independent directors. Moreover many companies have formed Share Transfer and Grievance Committee which takes care of grievances of investors.
- **Companies Auditors Report Order (CARO) 2003 amended in 2004**—CARO mandates many issues relating to ethical governance. Auditors of those companies (whose paid up capital and reserves exceed Rupees 50 lakhs as at the commencement of financial year concerned or average annual turnover exceed Rupees 5 Crores for a period of 3 consecutive FY immediately preceding the FY concerned) have to report whether the companies have internal audit systems commensurate with the size and nature of the business. It is almost impossible for a statutory auditor to audit all transactions of his client within a short period of time. Therefore CARO uphold auditor's ethics and helps in governing the task of audit ethically. There are many issues in CARO that basically deals with ethical governance.
- **SEBI (Issue of Capital & Disclosure Requirements) Regulation 2010**—This regulation acts as a support to the investors and stakeholders. Several clauses of the Regulation deals with the issues relating to the investors' protection and how to govern issue of capital and disclosure requirements ethically.
- **Companies Bill 2009**—Several clauses of proposed Companies Bill pinpoint ethical governance and intent to manage the companies with fairness, equality and justice. One of the clauses talks about CSR which is considered to be a precursor to ethical governance. It includes provisions to mandate that every company having a net worth of Rupees 500 Crore or more/ turnover of Rupees 1,000 crore or more/ a net profit of Rupees 5 Crore or more during a year shall be required to formulate a CSR policy to ensure that every year at least 2 % of its average net profit during the 3 immediately preceding FY shall be spent on CSR activities as may be approved and specified by the company. It also proposes establishment of a Committee for CSR. As a measure against discrimination in work place Companies Bill 2011 also proposes reservation of certain specified percentage for women in the posts of directors and executives.
- **Voluntary Guidelines of Ministry of Corporate Affairs (MCA)**—In 2009 MCA issued a guideline that may be followed voluntarily by any organisations mainly companies. It mainly deals with ethical governance and corporate sustainability. In 2011 MCA published a revised version of the said guideline under the title "National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business". The relevant principles enumerated in the guidelines that are directed towards ethical governance are as follows:

Principles	Issues
Principle 1	Businesses should conduct and govern themselves with Ethics, Transparency and Accountability.
Principle 2	Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.
Principle 3	Businesses should promote the wellbeing of all employees.
Principle 4	Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.
Principle 5	Businesses should respect and promote human rights.
Principle 6	Business should respect, protect and make efforts to restore the environment.
Principle 7	Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.
Principle 8	Businesses should support inclusive growth and equitable development.
Principle 9	Business should engage with and provide value to their customers and consumers in a responsible manner.

- **Ethical governance through Social Audit of Government's schemes and projects**—The Governments have introduced the system of social audit only to promote the system of ethical governance in various schemes and projects,. The various projects and schemes in which such audit is being conducted include National Rural Employment Guarantee Scheme (NREGS), Pradhan Mantri Gram Sadak Yojona (PMGSY), Pradhan Matri Gramodyog Yojona, Sarna Jayanti Gram Swarozgar Yojona, Mid-day Meal Scheme (MMS), Sarba Siksha Aviyan, and Rajiv Gandhi Awas Yojona etc.

Conclusion:

In countries like India the introduction of ethical governance will benefit all the stakeholders. Although many companies have successfully established corporate governance into their management systems, but have failed to promote ethical governance in reality. Corporate/administrative governance should not be equated with the ethical governance. Because ethics is a virtue or exclusive human quality that cannot be formed, managed and controlled by means of standards, rules or regulations. However many Indian companies like ITC Ltd., Tata, Mahindra, Sesa Goa, ONGC, SAIL, Oil India Ltd., GAIL, ACC, Jubilant Industries, Larsen & Toubro, Reliance, Wipro, TCS etc. have promoted ethical governance together with stringent corporate governance norms. In the context of many large scandals, Governments are considering the areas where ethical governance systems can be implemented. In future, it is expected that such ethical governance shall act against all corruption, discrimination, exploitation, misutilisation of resources, moral degradation, malpractices and unethical behaviours of the people.

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Notification

In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, in exercise of powers conferred by sub-section (1) (c) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the names of the members vide Notification No.16-CWR (8866–12319)/2012 dated 14th August, 2012 for non-payment of prescribed fees, the details of which are uploaded on the Institute's website www.icwai.org

Strategies For Organisational Development And Governance—An Ethical Consciousness

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Introduction

Due to the various scientific achievements the world is running fast and similarly also the business. Every one wants to grow fast keeping behind his competitors. This gives rise many deceitful activities which are against ethics, morality and also this objects salvation or free living of human beings. So it is necessary to observe and promote ethics and give importance on the restoration of human values which are disappearing very speedily from the human mind and very often from the business world now-a-days. Business is the human activities concerned with the production and distribution of goods and services for a price. Hence, business is an economic activity with the objectives of profit earning by exploring new markets, creating customers and technological innovations. Mere money chasing or acquiring wealth is not the only aim of business. It has other aims like rendering services to the community with a purpose of social welfare. Doing well to others is nothing more than ethics. A good business of value must follow ethical norms. This creates values in the business which can be later on interpreted as goodwill.

Corporate is a single word used for multiple components and working together and providing direction in governance. A corporate is bound by various stake holders like investors, suppliers, customers, employees, dealers, society, Govt. agencies and various environmental factors. Business has its a responsibility to the society as it operates in and becomes a part of it. It can survive and grow with its economic objectives only which mainly centers round profit motive. It must meet the need and fulfill the expectation of the society. This is supply of goods at reasonable prices, providing of quality goods and services, creating employment opportunities, avoiding of profiteering and unfair practices, doing social welfare actives, utilizing properly the natural resource and environment and dealing fairly with employees. But instead of doing good for the society the business organizations are indulging them-selves in various unethical practices. So it is high time to think about ethics and do accordingly in promoting values in business. In the above context the present paper tries to study on the concepts o ethics, ethical values and issues in corporate governance, business ethics, the history and development of ethics etc. This paper also deals with the different issues, characteristics, and twenty six human values which are emergently the need of business and at the end gives an intra country comparison of ethical consciousness and values of business. At the last the article ends with a conclusion.

Values And Ethics

The 'Values' are personal in nature and related to an individual's faith and belief. It gives a shape of conduct and behaviour. The same faith and belief determines his perception too regarding his of wants, desires and expectations. It is one's sense of belongings that determines one's value system. Values lay down ground rules and parameters to guide the behaviour of human being for attainment of some desirable objectives. An articulate value system of individuals forms the ethics of a community to direct the collective behaviour. Ethics is the generalized value system which encompasses the code of conduct (Samhita) for the society. The ethical consciousness is an internal to a human being. It is a value specific code of conduct for a human grouping. Values are individual where as ethics are collective. It is also a set of evolved beliefs and precepts of a people, which they feel are right for them to maintain their character and cohesiveness. Oxford dictionary describes ethics as a "system of moral principles rules and conduct". Ethics is a 'science of morals'.

The word ethics has emerged from Latin 'Ethicus' or Greek 'Ethicos'. The Origin of these two words is from 'Ethos' which mean the character. Ethics in simple words is a Treatise of science of morals, moral principles and social conduct rules. Ethics is concerned with moral judgements and decisions on voluntary human conduct. It is the highest good for the highest number of people. The ethics is the embodiment of moral, behaviour and character. The word moral has been derived from Latin 'Moralis' which means character. Morals are duties or rules that govern behaviour.

Behaviour is defined as the set of actions. It is external that is the response one makes with interaction with others. The behaviour reflects the character of individual's transparency and reflects good character of the individual. The character is within and hence core being of an individual whereas behaviour is external. Again behaviour is a short-term Phenomenon whereas Character is a long term one.

Ethics In Business

Ethics is an eternal term and consists of philanthropic ideas which have its significance in all forms of life and profession. It cannot be accepted as a basis of truth that business has no ethics. As business serves the society, it works with ethics. Business ethics is thus the ability, art and discipline of applying of ethical principles (i.e., truth, honesty, integrity, mutual trust and fairness) and philanthropic offerings to the business for promoting socio-economic development. Business ethics deals with the topic of study of the general guidelines that has been given its due importance in business, commerce, industry since last three decades. In early 50's, the public view was that the profits and ethics donot go together. They are mutually opposite and the company that makes profit was not considered as an ethical oriented company. But, in the modern day, business can also be ethical if it is honest. Almost all religions have followed the common rules of business and ethics. These are basically forbidding stealing, lying, deceiving, killing, harming others and encouraging honesty, helping all concerned, respecting elders and to keep promises. Ethical issues occur in all decision making processes of almost all type of business management. Ethical issues also come from the vision of the organization, long and short range planning and day-to-day decision making processes in an organisation. There will be continuous conflict between the goals and various issues of the organisation. The success of an organisation is measured by revenues, profits, costs, quality, quantity, efficiency and so on.

Importance Of Ethics In Corporate Governance

In general the term 'Governance' means an act or manner of governing something. "Corporate Governance is the set of processes, customs, policies and laws affecting the way in which a corporation is directed, administered or controlled". *(http:\en.wikipedia.org\wiki\corporate governance)* Corporate Governance is the system of internal controls and procedures by which individual Companies are managed. Transparency, integrity and accountability are the three basic doctrine of Corporate Governance. It provides a framework that defines the rights, roles and responsibilities of various groups involved in running an organization — management, board, controlling and non-controlling (minority) Shareholders.

The business organizations which act legally and ethically not only save lot of money but also gain public support and reputation in whatever new ventures the organization takes. The importance of ethics in business highlighted below:

- Business is a part of the society; whatever ethical principles apply in the society also applied to the business.
- Ethics is required to do well of the public at large.
- Ethics in business is to gain trust of the employees.
- Ethical practices reduce cost in long run.
- To gain prestige and pride.
- To get overall benefit the ethics are generally followed in business houses.

Ethical Issues In Corporate Governance

In the business most of the ethical issues/questions are divided into some overt issues and covert issues: The overt issues i.e. the issues are open and can be seen are bribery, theft, sabotage and collusion. Similarly, the covert issues which are not seen but hidden are: corporate acquisition, marketing policies, HRM policies, Capital investments and market surveillance. The overt ones are generally deplored. The business should avoid these unethical practices but accept all of the ethical policies in covert issues. Ethical values cover various aspects like fair competition, social responsibility, consumer care and corporate transparency and fairness etc. Methods to attend ethical values are:

a. Code of Ethics and Co. policy to be displayed all over the company premises.
b. Forming ethics committee to look after the need of ethical values in individuals and departments.
c. Seminars, workshops and audio-visual displays to be arranged periodically to educate employees in ethical values and culture.
d. Appointing ombudsman to investigate decisions from ethical and moral point of view.
e. Social audit by inside executives or by outsiders to be conducted annually to know improvement areas.

Ethical Policy Uniqueness

An ethical policy must have the following features like:

Equitable: The decisions taken must be equitable i.e. just and equal.
Proper: That which is appropriate to the situation and generally acceptable.
Good: Which are highest good and good for highest number of people?
Fair: Which is honest and due.
Justice: Justice is done to all and it should appear that justice is given to due.

Reasons Why Should Business Act Ethically

Business organizations play an important role in the growth, development and welfare of the society. According to J.R.D. Tata, the doyen of the Indian Industry, "Industrial Enterprise whether in the private or public sector can do much, with in their means to improve the conditions of life of the surrounding population, relieve distress where it exists, help, find work for the unemployed and extends helping hand to those who need it."(Tata 1980). Today, the concept of ethics is growing fast in every business enterprises. Business with ethical norms and corporate social responsibility can protect the interest of the business community as a whole so that the public will have trust and belief in it. It promotes the long run welfare of all the constituents affected by them. It also helps build the trust and belief with key constituent groups and avert the harms to the general people of the society.

Business Ethics In Ancient Indian Literatures

In ***ARTHASHASTRA*** it gives those policies have been developed by King in order to effectively promote the welfare of state holders. Following statements are given to frame of HRM policy in commensurate with ethics—

- Community development works
- Crisis management (famine, etc.)
- Insurance against loss
- Employee welfare
- Consumer welfare
- Environmental and ecological welfare
- Customs for righteous behaviour.

SHANTI PRAVA of Mahabharata depicts policies for creating a welfare state. The king should do:

- Public work activities
- Public safety
- Public welfare
- Public finance

MANUSMRITI stresses upon the following ethical policies:
Public works and welfare activities

- Distress and disaster management
- Consumer protection
- Public safety
- Public justice
- Public morality
- Literature on Economic Organs in Ancient India.

BRIHASPATI SMRITI: Enjoins merchant's guides for the construction of a house of assembly, of a shed for accommodating travelers with water facilities, a temple, a pool or a garden. These guilds also had to provide relief to the helpless and poor people. The Smriti also states that "The profit of the guild shall be bestowed on the mentally deranged, the aged, the blind, the women or children, to those affected by disease or such other deserving people".

JATAKA : It states that profit accrued to a partnership without the actual sale or purchase of goods (such as unearthing a treasure), the gain was considered as a by-product of the partnership and was put down separately and set a part as a common property to be utilized for charities. *(Vol-II, P.296)*

Several other inscriptions give an account of the performances of Social Responsibilities by businessmen.

- The Gupta Inscriptions state that a noble and unequalled Temple of the bright rayed sun was caused to be constructed by the silk cloth weavers as a guild with the stores of wealth acquired by the exercise of their craft.
- The Sanchi Stupa inscriptions states that "The casing of a temple was done by the workers in ivory of Vedisa who had organised themselves into a guild".
- The Junnar Buddhist inscription *(Archeological survey of Western India, Vol.IV, and P.94)* records the gift of a seven celled cave and a cistern by the guild of corn dealers to Buddhist monks.

Bhagawata Gita also narrates on business ethics in its 'Karma Yoga':

- Karma Yoga describes ethics and direct human values for all Kartas 'to be dutiful' as below:

  'To do' is the karma. It is 'Yogo' of moral endeavour, selfless work (Nishkam Karma i.e., detached involvement) as against the ruling of credo of 'Sakama Karma' (selfish, greed driven, attached involvement), is the original phase for egoless work. All Karmas are divided into two types: They are the Ethical (Niskam Karma) and Non-ethical karmas as described in business management (Distinctions).

Table: 1 Ethical & Unethical (Sakam Karma & Niskam Karma) Deeds

Sakam Karma (Unethical)	Niskam Karma (Ethical)
Psychological burnout	Psychological energy conservation
Reaction full, eradication	Reactionless, steady action
Aim is success	Perfection is the aim
Dependence on Praise	Inner autonomy
Bondage (Para-adheen)	Freedom (Swadheen)
Socio-economically Questionable	Socio-economically appropriate
Reward based commitment	Work Commitment
Competitive rivalry for Excellence	Work as worship for Excellence
Job enrichment	Mind Enrichment
Leads to Viyogo (alienation) form the transcendent/ higher self.	Leads to Yoga with transcendent / higherself.

Source: S.K. Chakravarty, 1995, Ethics in Management: Vedantic Perspectives. Oxford University Press, Delhi.

Business ethics are concerned primarily with the inputs of decision on people with in and without organistion, individually and collectively in communities or other groups. They are concerned with actions measured by ethical rules as contrasted with strictly economical and financial rules. The ethical behaviour is the conduct that is fair and just over and above the various rules and regulations. It is always ethical for a businessman to obey the laws, even though; he may personally believe them to be unjust or immoral. If he feels that laws are unjust, he can seek remedy.

A business executive has to observe a code of ethics with reference to: consumers, employees, government of the country, Organisation, industry, society in general. As stated by MS Watson, a morally responsible executive is one who knows the various kinds of value systems that may be employed in a particular situation and has a rather clear idea of what values hold as priorities or ascendancies over others.

26 Attributes In Business

A survey of 70 executives from 40 organisations covering multiple manufacturing and service companies was conducted. The respondents represented all the functional areas like marketing, production, engineering, personnel, general administration, finance and accounting. The respondents are ranked 26 Human Values of ethics in order of perceived importance.

Table 2 Ranking Of Human Values In Business Ethics

Sl. No.	Type of Human Values	Ranks given by Managers of	
		Marketing	Non-Marketing
1.	Reverence	03	01
2.	Purity of mind	04	02
3.	Truth	05	03
4.	Gratitude	02	04
5.	Love	12	05
6.	Liberation	16	06
7.	Loyalty	24	07
8.	Code of Life	13	08
9.	Purity of Motive	08	09
10.	Self Actualisation	01	10
11.	Personal Relationship	11	11
12.	Cosmic Causation	21	12
13.	Modesty	7	13
14.	Status	10	14
15.	Non-Violence (Ahimsha)	06	15
16.	Compassion	09	16
17.	Forgiveness	14	17
18.	Power	20	18
19.	Wealth (Money)	15	19
20.	Absence of Hatred	17	20
21.	Equanimity	18	21
22.	Benevolence	19	22
23.	Aggressiveness	23	23
24.	Caste	25	24
25.	Dependence	22	25
26.	Rest/Leisure	26	26

Source: TJC, Oct-Dec, 1999, P.141

Ethical And Unethical Practices

R. W. Austin suggested a simple positive code of conduct for business management which include : The Professional manager affirms that he will place the interest of his company before his own private interests; he will place duty to society above his duty to reveal the facts in any situation where his private interests are involved with those of his company or where the interests of his company are involved with those of society; be must subscribe whole heartedly to the belief that when business managers follow this code of conduct, the profit motive is the best incentive of all for the development of a dynamic economy.

Ethics Of Business: A Comparision: (World Wide)

Some of the ethical values noticed in different countries are plotted below to get a comparative look:

Table 3 Comparative Value Profile

A-Japanese	B-American	C-Chinese	D-Indian (Vedantic)
1. Loyalty of employees all through their life time. 2. Harmony & cooperation 3. Courtesy and humility 4. Gratitude 5. National services through industry & hardwork. 6. Struggle for betterment 7. Adjustment and assimilation 8. Groups	1. Belief in the best. 2. All employees are important 3. Informality 4. Protestant ethics 5. Go into details 6. Critical mind contributors 7. Importance to Physical & Economic growth.	1. Loyalty 2. Incentives & Structure 3. Service to society 4. Believing mind 5. Inner dignity 6. Self Actualisation 7. Social confluence or collective efforts or conscious-ness 8. Confucian ethics	1. Respect to elders (Teachers) 2. Not showing outward emotion 3. God fear 4. Marriage at heaven 5. Lifelong loyalty 6. Rebirth 7. Sacred four goals – Dharma – Righteousness Artha – Creation of wealth Mokshya – Liberation of the spiritual core.

Source: Business Ethics, R.V.Badi, N.V.Badi, P.108 Vrinda Publications (P) Ltd.

The Indian ethos of work life are simple living, holistic relationship between man and nature, cooperation with each other, Yoga and medication to reach excellence, spirit of sacrifice, internal orientation towards 'work is worship' and the holistic grasp of Indian values : Satyam (Ethics), Shivam (Welfare) and Sundaram (Beauty aesthetics).

Ethics empowers leaders/managers/kartas of business houses in developing personalities from the Indian ethos like Sattwa, Raja, Tama and select Sattwa qualities for better managers. Following are the qualities of different attributed leaders.

Table 4 Three Qualities Of Leaders In Business Ethics

Sattwa	Rajas	Tamas
Truthfulness	Jealousy	Lust
Purity	Dynamism	Laziness
Forgiveness	Envy	Drowsiness
Compassion	Crookedness	Imagined enjoyment
Cooperation	Back-Biting	Procrastination
Honesty	Anger	Action-less dreaming
Sacrifice	Cruelty	Postponing habit
Renunciation	Greed	Indolence
Patience	Covetousness	Thinking ill of others
Poise	Vanity	Action-less Rajas

Source: Business Ethics: R.V. Badi & N.V. Badi (2005), P.111

Conclusion

In India what the business often accepts as ethics, is its reflexive action influenced by the public pressure through legislative measures. Over-legislation has been the bane of Indian Polity. More than abiding, it prompts people to commit breach. Consumers Protection Act 1986, FEMA Act 1999, Competition Act 2002 and MRTP Act 1971 have added more burden to the judicial processes than regulating the public behaviour. Litigations seldom help in attaining the societal harmony. Positive and proactive thinking with a holistic approach where society and business are not considered opposing groups but complimentary to each other, alone can help in building up an appropriate social ethos for the consumer society of the Millennium. Neglect of environment and ecosystem, production of dangerous products, dumping, unfair labour practices, undesirable financial indulgences and vulgar show of wealth, are all inimical to the health of the society, hence they are unethical. The sense of deceit always breeds a sense of distrust and skepticism that kills the business image. Trust breeds trust and a natural goodwill in heart and so good business ethics are necessary to build up such mutual trust and goodwill which is important to run business successfully. Therefore, business ethics must be charted out very carefully. They should sound to be values that should be valuable to the society. Advertisements are often in the thick of controversy vis-a-vis a social good. Unrealistic claims and emotional appeals to the entire customers are always criticized as unethical. Use of female body to promote a male product is considered bad. They run contrary to the sensitivity of societal configuration and hence unethical. A public charity or the neighbourhood development project adopted by an industry for development of the society is purely of ethical and thus business and society don't complete but complement each other.

The corporate authorities under good corporate governance must follow and proceed in the holistic way of business ethics or otherwise it will gain hatredness of the public in the long run and it should be learnt that business is a part of the society, works for the society and lives by the society only. Without the welfare of the society and existence of the society, doing business is a day dream. So, all business organization should be social and ethical.

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An Indian Approach for becoming an Ethical Manager.

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An ethical Manager has to embark on a process of self discovery that will lead him to attain equilibrium between personal goals and company goals. He has to understand the basic tenets of leadership. A good leader has to direct self energy and energies of his team members in right direction. Right direction will stem from within. Before doing a SWOT analysis of the company, it is essential to find out own strengths and weaknesses, as well as those of team members. Self Introspection should be done by carving out some time for self, to reflect on the thoughts and events that shape the immediate future, both of company as well as self.

The quality of management in a company is basically influenced by the quality and approach of managers of a company. The topmost manager should be a person of high personal and professional integrity. He should be intellectual, honest, selfless and trustworthy.

G. P. Gupta (2010) says that "First, The top executive will have to form a positive attitude to develop his consciousness-- He has to be a Yogi. In other words, descending to the depths of his inner being with intense aspirations to Divine Grace towards progress and welfare of business.It is a battle to control the mind- the self within. In course of time, this will percolate down to the lower layers of the organisation".

The Indian management thoughts and practices focus on following, for the ethical governance:-

a. Mind purification (Chittashuddhi) of Manager
b. Body purification (Personal health) of Manager
c. The Theory of Karma (Cause and Effect).
d. The Theory of Maitri (Friendship)
e. The Theory of Anandology(Happiness)
f. The Theory of ethical work.

a. Mind Purification (Chittashuddhi) of Manager

Chittashuddhi, i.e. Purity of mind is essential to develop satvaguna as stated in Bhagwad Gita. The Upanishads say that Istha Dhyanam is the most practical method for self discovery. It follows a fundamental tenet of Psychology, "You become what you think".

S.K. Chakraborty (2003) suggests that, the mantra 'Chidananda rupah, Shivoham, Shivoham", – "I am Shiva, I am Shiva" given by Shankaracharya , when used repetitively in self meditation, will help in transformation of self from pettiness to dignity. Shankarcharya's famous song on self identity "Nirvan Shatakam or Atman Shatakam" can be quoted as follows:

> I have body, but I am not the body;
> I have the senses, but I am not the senses;
> I have the mind, but I am not the mind;
> I have an intellect, but I am not the intellect;

I am the self luminous pure conscience, which is poorna.(like Shiva).

Constant chanting of Shivoham mantra along with slow assertions in deep silence during meditation will lead to Chittashuddhi of the manager. This mood will help in enhancing their work performance.

b. Body Purification (Personal Health) of Manager

It is said that Healthy mind resides in a Healthy body. Competition to succeed, workplace stress, Stress during travelling and family stress etc. tends to create imbalance in energy flow in body and this leads to diseases like Diabetes, Blood Pressure , Obesity, etc. Ill health will hamper the progress of manager. Hence, the Manager should maintain his health by doing yoga, daily jogs, exercise, diet, and listen to music, etc. Panchkarma kriyas performed by Ayurvedic Vaidyas can help a lot in stress relaxation and body purification.

c. The Theory of Karma (Cause and Effect).

A.E Chakraborty (1995) elucidates the following :

In the third chapter of the Bhagwad Gita, Sri Krishna says that, those who share the fruits of their Yagna (activity) are freed from all sins. But that man suffers, who covets all, only for himself. In the fourth chapter of Gita, Sri Krishna defines Karma as the match between Right work associated with personal qualities, skills and learning abilities. Akarma is Non performance i.e. inaction.

Sri Krishna says that a leader should not be selfish, that is directed by personal ambition and goals, but also be aware of the other stakeholder's interests. This is the basic tenet of Corporate social responsibility. Sri Krishna urges Arjuna to overcome all fear, misconceptions about fighting Kauravas (his own Kin), to arise and perform without attachment. Sri Krishna inspires Arjuna to do his duty (Karma) with best of ability, without being attached to personal feelings.

Thus, the Gita never tells us to attain Sanyas or give up work altogether. The teaching here is to perform Karma (Cause), without self attachment, i.e., Higher goals for social benefit should be placed over short term achievement of pleasures. Effect will be Long-term benefit of self, company, as well as society at large.

Vivekananda says "This is the law of Karma. We, We, and no one else are responsible for what we suffer. We are the effects, and we are the cause. We are free, therefore. If I am Unhappy, it has been of my own making and this very thing shows that, I can be Happy, if I Will.....The Human Will stands beyond all circumstances."

d. The Theory of Maitri (Friendship)

"Maitri"denotes friendship with other team members for attaining a perfect coordination between them. A positive approach towards other's sense of achievement and awareness of their aspirations will lead to serenity of mind. This will act as lubricant to smoothen the frictions which occur in functioning of a team.

e. The Theory of Anandology (Happiness)

The Brahma sutras say "Anandamayo abhyasat", i.e. Ananda is achieved by constant repetition of the idea in mind. Maitri bhavana leads to sharing in happiness of others. Karuna bhavana is lending an ear to genuine difficulties faced by a colleague. Patanjali suggests that such healthy relationships with team members and colleagues lead to calmness of mind; the basis of Ananda. If a Manager practices Anandalogy, he will perform better and at the same time, motivate others to perform better.

f. The Theory of Work Ethics.

Sri Krishna scolds Arjun on his foolishness of not performing his duty. The Lord challenges Arjuna to do his ethical duty. Indiscipline and underperformance at work results from Tamo -guna (bad qualities). Sri Krishna wants to evoke Rajo-guna. (Awaken the Good) in Arjun. Therefore, he asks him to refrain from Asuri tatva (demon like qualities) and awaken his Daivi Shakti (God like qualities).

The leaders should follow principles given in Bhagwad Gita:

"Yoga Karmasu Kaushalam"
"Samatwam Yoga uchyate".

Yoga is for self upliftment. Kaushalam implies Skills in performing work.

Lokmanya Tilak, comments on this shloka in Srimad Bhagwad Gita Rahasya;

"From this it is clear that the special device- for the sinless performance of actions, namely an equable mind, is what is known as Kaushala (skilful device), and the performing actions by this Kaushala or device is known as Yoga".

Sri Aurobindo emphasizes that the true skill in work is the ability to perform any kind of work, while remaining in Inner union (yoga) with Supreme intelligence.

Thus, the leader should always be aware of his Sadsadvivek buddhi (Conscience), while performing his duties.

Conclusion

The Indian Manager should adopt the principle of Karma vada and Samatwa yoga (equality in behaviour) for ethical governance. Karma vada is science of Ethico morality to be exercised on thoughts (Manasa), words (Vacha) and actions (karmana). Samatwa yoga means developing an attitude of "Don't be attached, be detached". Perform your work diligently without being burnt out with the constant pursuit of worldly desires.

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Making Ethics Govern Business

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Executive Summary: Virtuous people are more likely to be trusted. Unethical behavior causes 'Trust deficit'. It not only destroys a potentially business environment but also slowly kills the business firm. Being satisfied with 'compliance-oriented' governance rather than 'ethic-embedded' governance is like being satisfied by treating symptoms rather than curing root-cause of a disease. Scandals or scams one after the other quickly seem to destroy the powerful energy of the human being – whether in business or in community governance – by diverting the same to 'damage-control' activities. It is high time that professional manager, CMAs in particular, take the lead to create an effective framework and execution capabilities for all in business to ethically behave in a conductive culture as enlightened and transformed global citizen. Let us bring back the value-systems in society. In today's business environment nothing else can be of supreme importance.

Ethics is the bedrock of every business firm. CEOs and a few at the top are undoubtedly the guardians of values of the firm. But individual and corporate values drive behavior. Collective human behavior defines the organizational culture. The culture determines the sustainability of the success of the firm and value creation to the society at large. Root cause of most business failure could be tracked to sick culture in the firm rather than to sick financial statements. Sick culture is obviously the result of poor ethics in governance.

Defining Morality, Ethics, and Ethical theory:

Morality is concerned with the norms, values, and beliefs embedded in social processes or behavior which results into action. These define right and wrong for an individual and community. "Ethics" comes from Greek word '*ethos*', referring to character and individual behavior. 'Ethics' is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called 'ethical theories'. In the context of governing an organization or business firm, application of this is referred as 'ethical governance'.

Importance of Business Ethics

"Business ethics" is no longer considered an oxymoron. The academic field of business ethics, has matured, business ethics find a place in B-school curriculum. Literature on ethics abounds with more research studies and findings. The business community sees ethics and ethical demands as part of all its activities and as important for it to manage and to internalize. However, people are discontent generally about the visible decay in 'ethical value' in business spreading its cancerous roots into every parts of the society.

Unethical business decisions hurt many people—including employees, customers, and members of the general population—as well as the business itself. Companies that are managed by persons who do not choose to do what is right are often the companies that do not survive for the long term. Organizations committed to long term success recognize the need to create a culture where ethical behaviors are encouraged and rewarded. This is the ultimate key to survival and growth in the future.

Where does ethical governance come from?

Ethical governance in business is more than 'regulatory compliance'. It is not rule-based. It is value-based. Human values are rooted in virtues which, being difficult to measure, quantify and monitor. 'Principle-centred' corporate guidelines (including for accounting) are encouraged to replace 'rule-based' ones. Values are learnt from childhood; not taught, from variety of contacts a person experiences, stories and situations. Morals are, many a time not explicitly articulated, but implicitly conveyed. Ethics should govern 'corporate governance' – every action in business.

A Research Report (2006) by CFO Asia prepared in collaboration with ACCA titled "Corporate Governance, Business Ethics & the CEO states as follows: *"It is harder to establish a connection between codified ethics and practical actions than to track compliance on governance or accounting systems. But ethics can be reasonably seen as an intangible, yet powerful, catalyst and supporter of* *compliance. Put another way, it is not possible to legislate for ethical behavior.*"

For true 'ethical governance', the person in the business world involved in any action has to imbibe himself a commitment i.e. a strong conviction that 'social good' is more important than 'individual good'. It has to come from 'within'. Whether it is awareness or knowledge, it should create true transformation 'within' for the 'ethical' behavior to happen – to happen always on every occasion – as a natural instinct. Performance outcome reflecting true 'ethical governance' comes neither from those who do it with *'I-am-sacrificing'* attitude nor from those who do with *'I-do-sacrifice for the world-to-know'* attitude. This is the key difference between 'ethical governance' and other forms of 'governance' including activities of CSR and Charities. Can a business firm claim existence of 'ethical governance' when the firm's business decisions are ethical on 99.9% occasions and unethical only on 0.1% occasion? Obviously, it cannot. Truth is always 100% and anything less than 100% is not Truth. The regulatory mechanism can only provide and should undoubtedly provide a conducive environment (not punitive environment) for this to happen. Punitive environment cannot create 'transformation' for ethical governance; it can only ensure 'compliance' mentality. Act of bribery done with no possible evidence of being caught is considered 'conforming to compliance' of rules but can it be conforming to 'ethical governance"? 'Ethics' in letter and spirit alone is sustainable.

One school of thought supports, for instance, the rationale of making CSR activities mandatory (as seen in the draft Companies Bill 2009 linking CSR expenditure to net profit) whereas the other view support that CSR should not be made compulsory. Some other may also feel that it should be mandatory for the first three to five years after which it may gather momentum as 'self-sustaining' behavior. Several companies have voluntarily adopted 'sustainability' as key policy in business. Shell is known for its 'people, profit, planet' approach to sustainable growth. Companies started disclosure practices in social and environmental performance along with financial results. Ethical governance includes CSR but is more than philanthropy or CSR activity.

In ensuring ethical governance, an organization has to put in place effective system to address starring commercial realities, challenging administrative processes and difficult technical niceties. This would essentially require, among other things, a well designed and structured training mechanism which is different from all other types of corporate or industrial training.

Nevertheless, the problem with rule based ethics is that the rules do not cover all possible situations. Conflicting rules may exist. It is difficult to transform general rules into individual situations. These aspects strongly reaffirm the need for the 'individual transformation from within' and the resultant 'organisational culture' and 'character'. This alone will ensure a foundation for 'value-based' decisions and behavior. "Fixing the ethics issue" is not a short-term programme.

Moral Values & Ethics

John Fletcher Moulton's following statement refers to the nature of self-imposed obedience to moral values. It also highlights the challenge it poses to individual integrity and to the development of true civilization: "*The real greatness of a nation, its true civilization is measured by the extent of obedience to the unenforceable. It measures the extent to which a nation trusts its citizens, its existence and the way they behave in response to that trust. Mere obedience to law does not measure the greatness of a nation. Such obedience can easily be obtained by a strong executive, and most easily come from a timorous people. Nor is the license of behavior which so often accompanies the absence of law, and which is miscalled liberty, a proof of greatness. The trust test is the extent to which the individuals composing the nation can be trusted to obey self-impose law*".

Moral values relate to what is believed to be good and of primary importance to human civilization. They are often articulated as ideals. Moral values influence judgment by differentiating right from wrong or good behavior from bad. Ethical principles are the operational expressions of moral values. They provide guidance to decision-making and action. "*Values can't just be words on a page. To be effective, they must shape action*" said Jeffrey R. Immelt, Ex-CEO, General Electric.

Doing Well by Doing Good

Although 'ethics' is not the same as self-interest, interestingly, business executives often want to be assured that it is the same. They want to make certain that "*one can do well by doing good,*" i.e. one can succeed in business by being ethical. An ethical firm is more likely to build a good reputation, which is more likely to bring financial rewards over the long term. But good behavior cannot be grounded in tangible reward alone. People who are interested only in reward will behave ethically when it suits their purpose, but they will go astray whenever the incentives change.

It is important to know that one can normally do well by doing good. Otherwise ethical people could go into business only with a high risk of failure. ' Business ethics', however, addresses the opposite question: how can one do good by doing well? It begins with the premise that managers want to do something good with their lives and investigates how to accomplish this through business. In other words, it treats profit and business success as means to a greater end: making the world a little better. Henry Ford, Sr. once said: "*For a long time people believed that the only purpose of industry is to make a profit. They are wrong. Its purpose is to serve the general welfare.*"

In one sense, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually lead to legislation, once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the 'grey areas' of business, or where, as Treviño and Nelson (2007: 3) puts it, 'values are in conflict'.

Standards are Important

Littleton defines standard as follows: "A standard is an agreed upon criteria of what is proper practice in a given situation; a basis for comparison and judgment; Standards are not designed to confine practice within the rigid limits but rather to serve as guide-posts to truth, honesty and fair dealing. Again they are not accidental but intentional in origin; they are expected to be expressive of the deliberately chosen policies of the highest types of business. They direct a high but attainable level of performance, without precluding justifiable departures and variations in the procedures employed". Though several companies have created 'Code of Ethics", like the 'Accounting Standards' issued from time to time by the institutions of accounting profession, introducing 'standards' for 'ethical governance at industry level can also be considered.

Ethics & Leadership in Business

A New York Times/CBS News Poll conducted in 1985 revealed (a) 55 percent of the Americans believe that the vast majority of corporate executives are dishonest and (b) 59 percent think that executive white-collar crime occurs on a regular basis. A 1987 Wall Street Journal article noted that one-fourth of the 671 executives surveyed by a leading research firm believed that ethics can impede a successful career, and that over one-half of all the executives they knew bent the rules to get ahead. 1990 National Survey published by Prentice Hall concluded that the standards of ethical practice and moral leadership of business leaders merit at best a C grade. Sixty-eight percent of those surveyed believed that the unethical behavior of executives is the primary cause of the decline in business standards, productivity, and success. The survey further suggested that because of the perceived low ethical standards of the executive class, workers feel justified in responding in kind—through absenteeism, petty theft, indifference, and a generally poor performance on the job. Many workers openly admitted of spending more than 20 percent (eight hours a week) of their time at work totally goofing off. Almost half of those surveyed admitted to chronic malingering on a regular basis. One in six of the workers surveyed said that he or she drank or used drugs while on duty. Three out of four workers reported that their primary reason for working was "to keep the wolf from the door"; only one in four claimed to give his or her "best effort" to the job. The survey concluded that the standards equation of the American workplace is a simple one: American workers are as ethical/dutiful in doing their jobs as their bosses. (as the famous Indian saying goes : *"Yadha Raaja, Thadha Prajaa")*

Only with continuous commitment, enforcement, and modeling of leadership, ethical behavior can be achieved in any organization. The ethics of leadership—whether 'be good' or 'be bad', "positive" or "negative"—affect the ethos of the workplace. It is the Leader who can help to set the tone, develop the vision, and shape the behavior of all those involved in organizational life. A CMA can re-position his role in shaping and firmly fixing the root i.e. to go beyond the performance analysis to drive performance, formulating ethical Strategy, helping strategy execution caring to see no unethical means are employed to achieve the goal though the goal *per se* is ethical.

Ethical Dilemma

Ethical dilemma is a situation that arises when all alternative choices or behaviors have been deemed undesirable because of potentially negative consequences, making it difficult to distinguish right from wrong.

Ethical problems are problems of choice. They become problems not because of the peoples' tendency to do evil, but because of the conflicting nature of the standards and interests which are valid in themselves. Problems in ethical decision-making occur when the individual interests and the social norms conflict with each other.

The tendency to overemphasize legal compliance mechanisms may result in an attempt to substitute "accountability" for "responsibility" and may also result in an attempt to legislate morality. The focus of the virtues in governance is to establish a series of practical responses which depend on the consistent application of core values and principles as well as commitment to ethical business practices.

Examples of ethical values ("Six Pillars of Character" developed by The Josephson Institute of Ethics):

1. Trustworthiness: honesty, integrity, promise-keeping, loyalty
2. Respect: autonomy, privacy, dignity, courtesy, tolerance, acceptance
3. Responsibility: accountability, pursuit of excellence
4. Caring: compassion, consideration, giving, sharing, kindness, loving
5. Justice and fairness: procedural fairness, impartiality, consistency, equity, equality, due process
6. Civic virtue and citizenship: law abiding, community service, protection of environment.

Business Ethics and Finance

Ethics and finance have been at the focal point of many corporate misbehavior resulting in corporate failure or value depletion to stakeholders, public distrust and protest against corporate and government misdemeanours. Undoubtedly, we should stop asking, if at all we do, hypothetical or otherwise, questions such as 'do the benefits outweigh the costs when a firm acts unethically?" The answer is obvious. When a manager resorts to unethical practice or act of manipulations, it results neither in 'win-win' situation nor in 'win-loss' situation but in 'loss-loss' situation. It destroys all. The recent scandals engulfing the financial industry including the LIBOR scandal are signs of moral decay. None can ever hear of sustainable value creation from unethical behavior. The real question to be answered centers around achieving true internalization of ethical behavior by everyone in business as a natural outcome embedded in culture. Doing business ethically is not just something which is handled by someone in compliance or legal department. It is part of the way everyone works. The CMA professionals should be well equipped to provide the lead for the same.

Ethical Governance and CMA professionals

The headlines in daily newspapers portrait several accounting cover-ups, financial mismanagement, plain cases of unlawful business practices. Perhaps less discussed is the CMAs role in bringing out necessary reforms to calm the financial market offering sustainable solutions and mature systems in business world both at micro and macro levels.

Accounting professionals, particularly Management Accountants, today, are less involved in traditional accounting. We see a welcome shift in their role towards leadership and management. Both 'support to decision-making' and 'direct involvement in the top level decision making' entail clear understanding of ethics and governance. Discharge of key stewardship functions, therefore, demands thorough skill in application of their core professional knowledge in regulatory regimes, compliance requirements and governance mechanism with embedded ethical standards.

Ethics should govern business. Ethical standards help to make it happen. Management control systems including various practices such as management audit, operational audit and cost audit can be made more effective if such practices can widen scope beyond 'compliance-oriented' approach. The role of accounting information in strengthening corporate control mechanisms can be re-defined. Companies now go beyond financial information. Modern tools such as Balanced Scorecards are used to incorporate non-financial information and to manage strategy execution driving business performance. Though the present ICAI –CMA curriculum finds inclusion of Corporate Governance (in Section II of Paper 11 of the Final stage), it seems inadequate if a CMA is to be positioned to lead the business world in ethical governance, integrated reporting and managers of the drivers of performance. Suitable change is essential in the teaching and training contents, CMAs can lead organizations in co-creating sustainable business value keeping ethics at the centre.

The famous quote of Peter Drucker namely, "Doing the right thing" is Effectiveness and "Doing things right" is Efficiency, gives insightful hint. CMA can provide substantial professional leadership to a firm in 'doing the right thing' as well. CMA has fundamental responsibilities in four broad areas: first, to maintain a high level of professional competence; second, to treat sensitive matters with confidentiality; third, to maintain personal integrity; and fourth, to disclose information in a credible fashion. This can be broadened to include ethical aspects as follows:

1. To create an organizational culture wherein everyone promotes awareness of ethical responsibilities, discharge duties free from any tint of unethical thoughts or deeds, demonstrates behaviour which causes minimum instances of ethical issues/conflicts and exhibits capabilities to resolve issues quickly, if issues emerge.
2. To act as a catalyst or a source of inspiration in achieving ethical behavior among all.
3. To build, manage, analyse, interpret and sustain information flow setting exemplary standards of social and environmental performance wherever CMA gets associated.

In a dynamic global environment, to fulfill the above demanding but unfulfilled role, a CMA has to develop a range of professional ethics, values and attitudes not only within himself but also in all areas of his influence and contact. Strangely, unlike the other disciplines of knowledge, ethics cannot be taught. Ethics should be imbibed. It has more to do with '***being good'*** than 'knowing good' or even more than 'doing good'. This key aspect of 'ethical governance' is substantiated by the following :

"*While there have been positive developments in terms of building the architecture for ethical codes and policies, the translation of these into actual practice and everyday business processes is lagging behind.*"- quote from Report on "Managing Responsible Business" – A Global Survey on Business Ethics – 2011 conducted by CGMA [Certified Global Management Accountant – a body jointly formed by the AICPA and CIMA, London]. This report also states the following: "A recent study of 18 major corporate crises revealed that risks related to failures of ethos, culture and behaviour tended to go unrecognised and yet were major causes of the crisis – even worse, such risks tipped the original crisis into a 'reputational catastrophe'.. This confirms the critical need to monitor ethical performance. A CMA should be readied to fill the gap.

The professional training with emphasis on ethical aspects of governance would make a CMA most suitable person to take responsibility to act as change agent within the organization, supporting the maintenance of effective internal control systems and ensuring that his organization has considered, adopted, and fully implemented a company-wide 'ethics and compliance program', including code of ethics and confidential hot/helpline.

The CMA's role includes the following:

1. To embed wider ethical aspects into organizational strategy and performance measurement.
2. To collect, quantify, analyze and interpret, monitor and evaluate relevant and precise information on ethical practices, demonstrated value-based behaviour and CSR activities.
3. To actively contribute in effective implementation and desired cultural transformation.
4. To address and resolve issues relating to ethical dilemmas and pressures also by putting in place preventive measures.
5. To support for solutions for business issues relating to security of information, acts of dishonesty and misuse of delegated power for personal enrichment.

A CMA has to understand the following and hence the teaching and training contents have to be suitably revised:

(a) nature of the CMA profession and the roles of professional management accountants.
(b) to acquire proficiency to apply the key professional responsibilities of a management accountant as a member of Institute (s)he belongs
(c) to develop ability to constantly bear in mind the importance and potential future implications of ethics and/or absence of ethics in the business.
(d) to be fully conversant with the key governance and regulatory frameworks, including international perspectives on corporate governance and the roles of various stakeholders.
(e) to be competent to describe the nature, role and importance of corporate social responsibility, including climate change and sustainable development.
(f) to be able to explain to all concerned the expectations placed on various internal and external stakeholders arising from organisational governance responsibilities. For example, an ethical business has to be concerned with the behaviour of all businesses that operate in the supply chain i.e. Suppliers, Contractors, Distributors, Sales agents etc.
(g) to be able to ascertain and quantify in a meaningful and simple way various compliance and regulatory regimes impacting the global business environment.
(h) to be able to develop industry-specific and user-friendly performance measurement mechanism in respect of ethical governance.

Professional Opportunity

Considering the misdeeds resulting from unethical behaviour in companies like Enron, WorldCom, HealthSouth, Satyam Computers etc, none can deny that highly paid professionals impacted thousands of lives and shook the financial markets. Management Accountants should re-position themselves as committed professionals to serve the cause of the public interest. This is the hallmark of what it is to be a CMA. Though creation of ethical organizational culture resides with leaders and followers, leadership by definition demands that leaders be the front runners in creating it. Ethical standards should not only be set but also be met.

Several studies are available examining the relationship between financial accounting information, corporate control mechanisms and corruption. Corporate control mechanisms are among the most effective tools to reduce such incidences of value-erosion, because they promote values such as accountability, transparency, fairness and responsibility. These mechanisms are fundamental for the enhancement of the business performance as well. Management accountant helps in this by aligning himself every day with his organization that is committed to truth-telling and to full disclosure of relevant information to interested parties. This is done by being objective and by following own best judgments rather than submitting to the pressures of targets and management preferences. Society looks forward to a professional like management accountant to serve not only as a bulwark against unethical behavior but also to drive an organizational culture where such things can never happen.

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Guidelines on Para 11 to Annexure to The Cost Audit Report (CARR, 2011)

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This Para is to be prepared for the company as a whole and not factory-wise, product-wise, Chapter heading-wise, etc. All products of the company attracting excise duty/service tax/VAT or any other state taxes is required to be considered for this para.

Figures under this Para are to be given for one year only.

Figures may be given in Rupees in lacs.

Since "Assessable Value" word is applicable under the Excise Act, therefore it is suggested that the column "Assessable Value" should be filled corresponding to excise duty only.

In case of service tax, cess & others and VAT, gross amount need not be shown. Only the tax amount should be shown under the respective column.

In order to get more meaningful information, it is suggested to introduce one more column for total which will be the sum total of excise duty, service tax, cess & others and VAT.

It is suggested to introduce a column for "Serial No." as a first column in the present format prescribed for this Para. However, these additional columns can be used only for internal control purposes and not for filling of the cost audit report since the format of para 11 is fixed by the rules.

1.TOTAL CLEARANCES - The word "clearances" includes the clearances of the goods by way of domestic sales, export sales, (including SEZ sales), transfer to other units/factories of the same manufacturer, free supplies, stock transfers to the warehouses, depots or C & F agents, clearances 100% EAU, clearances of raw materials or capital goods as such, clearance of used capital goods, clearances of traded goods, etc. Where the intermediate products are cleared for outside sale/dispatch as well as consumed captively by the manufacturer, separate details are required to be furnished in such cases.

The word "clearances" also includeds the total services provided domestically and for export purpose, services received as a recipient of service from the Foreign Service provider, services provided to EOU, services provided to sister units/concerns situated within/outside India, etc.

The value shown here should necessarily be the assessable value of goods/services.

These clearances can be tallied with Monthly ER-1 Return (Excise), Annual Financial Information Statement in ER-4 (Excise), Half Yearly ST-3 Return (Service Tax) and Monthly/Annual MVAT Return.

1(a) Domestic – The value of the domestic clearances from factory include the clearances for local sale, inter state sale and clearances relating to captive consumption, clearances of raw material or capital goods as such, clearances of used capital goods, clearances of traded goods.

The word "domestic clearances" also includes the services provided to a local service recipient as a service provider and recipient, services provided to a service recipient situated outside the state as a service provider and recipient and services provided to sister units /concerns situated within India.

1(b) Export – The value of the export clearances will mainly include the clearances for physical export (including SEZ supplies), clearances to 100% EOU, etc. This will also include the clearances for export under various exemption notifications.

The word "export clearances" also includes the services exported out of India, services provided to 100% EOU, sister units / concerns situated outside India, etc. This will also include the export of services under various exemption notifications.

1(c) Stock Transfers (Net) – The value of the clearances relating to stock transfers include the clearances to depots / branches of the unit situated within / outside the state, transfers to other units / factories of the same manufacturer situated within / outside the state, stock transfers to the warehouses, depots or C & F agents, etc. situated within / outside the state.

1(d) Others, if any – The clearances of goods / services, not falling under any of the above sub-heads, will fall under this head.

1(e) Total – It is the sum total of 1(a) + 1(b) + 1(c) + 1(d).

1. **TOTAL DUTIES / TAXES PAYABLE** – Excise duty payable will consist of clearances of goods for local sale, inter state sale, clearances relating to captive consumption, clearances to depots / branches, clearances to other units for further use in manufacture of goods, stock transfers to warehouses & C & F agents, free issues, duty paid on clearance of inputs / capital goods as such, used capital goods, duty paid or reversed on account of manufacture of dutiable and exempted goods, duty paid on export under rebate, etc.

   Service tax payable will consist of the services provided to the service recipient situated within / outside the state as a service provider or service recipient, services provided to the sister units / concerns situated within / outside India, services received from the service provider situated outside India as a service recipient, tax paid or reversed on account of provision of dutiable and exempted service, etc.

   Cess & others payable will consist of the various cesses and other taxes leviable under the respective laws viz. education cess, secondary and higher education cess, other cesses and taxes, etc; levied by the same state or the other state.

   VAT payable will consist of the value added tax levied and payable within the state for all the clearances taken place locally i.e. within the state or the intra state sale. This will specifically exclude the sales or clearances made to other states i.e. outside the state or inter state sale.

2. **DUTIES / TAXES PAID** – It includes Cenvat / VAT Credit utilized on inputs, capital goods, input services and other utilization, if any.

3(a) Cenvat / VAT Credit Utilised – Inputs – It refers to the utilization of Cenvat credit or VAT credit on the inputs received in the factory.

The figure of Cenvat Credit on inputs can be tallied and taken from the Cenvat register maintained by the company (earlier known as RG23A Pt.II). Further, the figure of VAT Credit on inputs can be tallied and taken from the VAT register maintained by the company.

3(b) Cenvat / VAT Credit Utilised – Capital Goods – It refers to the utilization of Cenvat credit or VAT credit on the capital goods received in the factory.

The figure of Cenvat Credit on capital goods can be tallied and taken from the Cenvat register maintained by the company (earlier known as RG23C Pt.II). Further, the figure of VAT Credit on capital goods can be tallied and taken from the VAT register maintained by the company.

3(c) Cenvat / VAT Credit Utilised – Input Services – It refers to the utilization of Cenvat credit or VAT credit on the input services availed by the company.
The figure of Cenvat Credit on input services can be tallied and taken from the Cenvat register maintained by the company.

3(d) Cenvat / VAT Credit Utilised – Others – It refers to the utilization of Cenvat credit or VAT credit, if any, from the items other than those mentioned above.

3(e) Total – This refers to the total of Cenvat / VAT Credit utilized on Inputs, Capital Goods, Input Services and others, if any. {It is a sum total of 3(a)+3(b)+3(c)+3(d)}.

3(f) Paid through PLA / Cash – This refers to the payment of Excise Duty, Service Tax, Cess & Others and VAT through debit in PLA account or deposit in to the PLA account or payment in to the bank account by way of cheque or cash through the GAR-7 Challan or the challan for making the payment of VAT.

3(g) Total Duties / Taxes Paid - It will be a sum total of excise duty, service tax, VAT, cess & other taxes paid through PLA / Cash plus utilization of Cenvat Credit. {It is the sum total of 3(e)+3(f)}

3. **DUTIES / TAXES RECOVERED** – It should be taken from Books of Account of the company. It is necessary that the gross turnover or the gross billings should be duly accounted under various heads such as net sales, excise duty, sales tax, service tax, etc.

4. **DIFFERENCE BETWEEN DUTIES / TAXES PAID AND RECOVERED** – This refers to the amount of total duties / taxes paid and recovered. This may

not match due to the following reasons –Excise duty element in stock of excise duty paid goods at depots, branches, and warehouse or with C & F agents. Here, the goods lying at depots, etc. are duty paid goods wherein the goods have not been sold to the customer. Hence, the duty has not been recovered from the customers.

Excise duty/sales tax paid on free issues, samples, wherein the taxes are not recovered from customers.

Services provided by the exporter on payment of service tax.

Excise duty/sales tax/service tax/cess and other payments arising out of Order-in-Original or Order-in-Appeal, etc.

The amount of difference should be stated item wise viz. Excise Duty, Service Tax, Cess & Othes and VAT.

It is the difference between 3(g) minus 4.

5. **INTEREST/PENALTY/FINES PAID** - The fines, penalties, interest etc. are not a payment of Excise Duty, Service Tax, Cess & Others and VAT. However, sometimes it is paid through PLA or Cash (deposit in to the bank account by way of cheque or cash through challan) under the separate code as specified in the challan. In these circumstances, the amount should be identified and shown separately. This amount can be tallied from Monthly ER-1 Return (Excise), Annual Financial Information Statement in ER-4 (Excise), Half Yearly ST-3 Return (service Tax) and Monthly/ Annual MVAT return.

Usefulness of Para 11 :

The information required under this Para will be very useful and help the companies to reconcile the indirect tax records and the financial books and will also help to minimize the litigations under the indirect tax laws.

The information under this Para will also be useful in the case of Valuation Audit under Section 14A and Cenvat Audit under Section 14AA of the Central Excise Act, 1944.

In case of EA 2000 Audits, CERA Audits, VAT Audits, etc; similar information is invariably asked by the Audit Parties. The information under Para 11 is quite useful to the companies to satisfy the requirements of Audits.

The information under this Para will also be useful to the companies for reconciling the various returns prescribed under the indirect tax laws viz. Monthly ER-1 Return (Excise), Annual Financial Information Statement in ER-4 (Excise), Half Yearly ST-3 Return (Service Tax) and Monthly/Annually VAT Return (VAT).

Para 11 represents the information pertaining to various indirect tax laws for the company as a whole viz. Excise Duty, Service Tax, Cess & Others and VAT. Hence, this Para helps the companies in viewing the total picture of indirect taxes at a glance.

Announcement

The Institute's 2nd Convocation and the National Students' Seminar will be held on Friday, the 22nd March 2013, at Science City Auditorium, Kolkata. This is for the information of all concerned.

Tax Titbits

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A Welcome Decision On Section 206AA

Section 206AA requires tax deduction at source at 20%, where Permanent Account Number (PAN) of the deductee is not made available to the deductor on any payment liable for tax deduction at source. Constitutional validity of this provision was questioned before the Karnataka High Court in Smt. A. Kowsalya Bai v. UOI (2012) 346 ITR 156 (Karn) on various grounds especially its application to a deductee, who is not obliged under section 139 to get a PAN. It was held, that section 206AA to the extent it requires PAN from a person not obliged to get PAN under section 139A is not valid, since section 206AA cannot override section 139A. The requirement, that small investors without taxable income should obtain PAN to enable them to file Form 15G/15H, is not also reasonable. It was pointed out, that there are already penal provisions for failure to make appropriate deduction under the law, so that section 206AA is redundant and is not a remedy for enforcing tax deduction provisions. It was found that there is discrimination against persons not obliged to get PAN under section 139A and such discrimination is vulnerable.

It is a far reaching decision, which deserves to be accepted on principle not only because of the law behind it, but also because it would avoid unnecessarily larger deductions causing burden on small taxpayers, while increasing equally the burden on tax administration in processing refunds.

Hassles On Issue Of Transfer Of Shares

Corporate sector is treated under the income tax law more adversely than the non-corporate assessees. Minimum Alternate Tax (MAT) is confined to this sector only. Double taxation on corporate profits both on company and shareholder is aggravated by the provision deeming as income even a loan to substantial shareholder (10%) or to a concern in which such shareholder has substantial interest (20%). Exemption for conversion of a company to Limited Liability Partnership (LLP) is available only for small companies with liability for deemed dividend for three years on loans and advances. Loss from transfer of shares by a company other than investment company mainly with business income or a money lending company will be treated as speculation loss under Explanation to section 73, so as to lose the benefit of set off against other taxable income.

Some of the recent amendments would add to the burden on unlisted companies by further deeming of income on share contributions or what are treated as concessional issues of shares.

(1) Amendment to section 68

Courts would treat contribution to share capital as different from other cash credits, mostly in cases, where the contributors are identified, but the source of funding such contributions is not satisfactorily explained. It is only in this sense that the Supreme Court understood amounts received towards share capital in CIT v. Lovely Exports P. Ltd. (2009) 319 ITR (St.) 5 (SC). The first proviso inserted by the Finance Act, 2012 with effect from A.Y. 2013-2014 would seek to nullify such a view. It will be odd to treat the deposit towards subscriptions of share capital from identified contributors as undisclosed income of the company for lack of satisfactory explanation without any evidence to suggest that the contributor was introducing the company's undisclosed income in his name. There may be circumstances, when contributor's lack of explanation as to the source may give rise to an inference, that it may not be his money, but even in such a case, he may not necessarily be a benamidar of the company, but probably of a promoter or his associate. The presumption that it belongs to the company is no solution and will inhibit enquiry as to real ownership of the shares and their source. Unless the proviso is understood as nothing more than a presumption, which is rebuttable, there can be liability for the company for having share contribution from a person, who, though identified, is unable to account for the source to the satisfaction of the Assessing Officer. It may also be pointed out, that companies in which public are not substantially interested are excluded from the application of the proviso. Probably, the largest block of benami shares are shares held in listed companies, so that targeting unlisted companies in the manner stipulated by the amendment is retrogade.

The second proviso makes exception only for venture capital fund or company. The exception is too narrow to mitigate possible mischief of first proviso, which is prone to misdirect enquiry.

(2) Section 56(2)(viia)

Clause (viia) inserted in section 56(2) by the Finance Act, 2010 with effect from 1.6.2010 would treat the shares of a company received by a firm or an unlisted company either without consideration or at a concessional price as its deemed income. The Board circular No. 1 of 2011 dated 6.4.2011 explains the amendment in following words:

"13.2 These are anti-abuse provisions which were applicable only if an individual or an HUF is the recipient. Therefore, transfer of shares of a company to a firm or a company, instead of an individual or an HUF, without consideration or at a price lower than the fair market value was not attracted by the anti-abuse provision. In order to prevent the practice of transferring unlisted shares at prices much below their fair market value, section 56 was amended to also include within its ambit transactions undertaken in shares of a company (not being a company in which public are substantially interested) either for inadequate consideration or without consideration where the recipient is a firm or a company (not being a company in which public are substantially interested). It is also provided to exclude the transactions undertaken for business reorganization, amalgamation and demerger which are not regarded as transfer under clauses (via), (vic), (vicb), (vid) and (vii) of section 47 of the Act."

Firms and unlisted companies, which receive shares other than listed shares of a company is made liable to tax on the difference between the market value of assets and consideration paid. But any understatement of value of such shares is treated as deemed gift taxable in the hands of the donee extending the donee-based gift hitherto confined only to individuals and Hindu Undivided Families to companies. Fair market value has not been defined. Rule 11 and 11UA defining fair market is applicable only for gift and concessional sales to individuals and Hindu Undivided Families. It would create litigation as regards valuation and place a burden on share purchases made by a firm or an unlisted company.

(3) Section 56(2)(viib)

Clause (viib) has been inserted by the Finance Act, 2012 from the A.Y. 2013-2014. It provides that, where an unlisted company issues shares to a resident for an amount in excess of the fair market value of the shares, it will be deemed to be the income of the company under the head "Income from other sources". The fair market value for this purpose is the higher of the value arrived at on the basis of the method to be prescribed or the value as substantiated by the company to the satisfaction of the Assessing Officer. This provision will not apply to amounts received by a venture capital undertaking from a venture capital fund or a venture capital company. Further, this provision will not apply to amount received from a non-resident, a foreign company or from a class of persons as may be notified by the Government. Every issue of shares may well become subject matter of scrutiny involving valuation of assets comprised in the company as is evident from reference to intangible assets "being goodwill, know-how, patents, copyrights, trademarks, licences, franchisees or any other business or commercial rights of a similar nature" to be valued by a method to be prescribed and/ or as may be substantiated by the assessees. Litigation is in the cards.

The assessment of a company in respect of shares issued on private placement is by negotiation often in pursuance of shareholders' agreement, so that it would be meaningless to assess the company, whether under section 68, 56(2) (viia) or (viib).

(4) White paper on black money

The song in the white paper on black money is mainly on "misuse of corporate structure". It is stated that the company as an artificial personality is used to conceal the real beneficiaries by misusing the legal privileges said to be available for company. Notwithstanding the finding of the Supreme Court in Vodafone International Holdings B.V. v. Union of India (2012) 341 ITR 1 (SC) in clearing the transactions related to "underlying assets", it is referred as an instance of misuse of corporate structure, Article 141 of the Constitution, as well as lack of propriety in referring to the Supreme Court in the manner done shows that the corporate veil is intended to be treated as pure gauze. In the light of the rigid company law provisions to ensure corporate governance, one would have thought, that the fault in the society either for corruption or tax evasion cannot be laid, so heavily on corporate sector. Treatment of corporate sector as a scapegoat for black money may misdirect the efforts of the Government. However, the attempt to undo some of the amendments by Committees set up by the Government, it is hoped, would steer the path of the Government in a direction consistent with the larger goal of convergence with international accounting and tax practices to ensure the contribution of corporate sector for the growth of the economy.

Paradigm Shift In Service Tax Budget-2012

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Service Tax which has undoubtedly made its inception in the year 1994 in the Indian Tax Structure, and with the drastically growing economy of India has resulted into a comprehensive & exhaustive indirect tax giving boom to the economy in the terms of growing GDP of the country. Year 2012-13 has indeed changed and refined the whole tax structure of services by transferring the taxation of services from the selective approach towards the negative list approach. The paradigm shift in the Service Tax with the presentation of Budget has come through the following sections:

- Section 65(B) clause 44-Definition of service
- Section 66(B)- Charging Section
- Section 66(C)- Place of Provision
- Section 66(D)- which lists the services to be placed in the negative list,
- Section 66(E) – which specifically identifies the service, which have been declared as service
- Section 66(F)- Classification
- Section 67(A)- Rate & Value
- Section 68- Payment of service tax

Definition Of Service- Section 65(B) Clause 44

Earlier there was no definition of service, now service has been defined under clause 44 of sec 65 B and means:-

a. any activity
b. for consideration
c. carried out by a person for another
d. and includes a declared service

But does not include following:

- transfer of title in goods or immovable property
- transfer / delivery or supply of goods
- a transaction in money or actionable claim
- service by an employee to the employer
- fees taken in any Court

Taxability Of Services-Section-66(B)

"There shall be levied a tax (hereinafter referred to as the service tax) at the rate of twelve per cent. on the value of all services, other than those services specified in the negative list, provided or agreed to be provided in the taxable territory by one person to another and collected in such manner as may be prescribed."

Thus, to be a taxable activity, a service/activity should be–

- provided or agreed to be provided by a person to another for consideration
- in the taxable territory
- & should not be specified in the negative list.

Meaning there by that following activities also comes under the net of service tax:-

- any activity agreed to be performed in future
- any advance received for a activity to be performed in future and
- advance forfeited by the service provider on the cancellation of contract by service receiver.

Further, this definition of '**activity**' also does not include the following:

a. Services rendered by MPs, MLAs, Members of Panchayats, Municipalities etc
b. Services rendered by any person occupying any post in pursuance of the provisions of the constitution
c. duties performed by any person as a Chairperson or a Member or a Director in body established by the Central Government or State Governments or local authority

NEGATIVE LIST-SECTION 66(D)

W.e.f. 01.07.2012 taxation would be based on what is popularly known as "NEGATIVE LIST" of services.
The negative list includes:

1. all the services provided by Government of India(GOI)—Centre and States including local bodies except the following:
   a. services provided by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services carried out on payment of commission on non government business;
   b. services in relation to a vessel or an aircraft inside or outside the precincts of a port or an airport;
   c. transport of goods and/or passengers;
   d. support services, other than those covered by clauses (a) to (c) above, to business entities.

1. Reserve Bank of India (RBI)
2. Foreign Embassies.
3. Agriculture and related activities,
4. Trading of Goods
5. Manufacturing activities
6. Sale of space or time for advertising (other than radio and television)
7. Toll charges
8. Games of chance (betting, gambling and lottery)
9. Entertainment events and Amusement facilities
10. Electricity Transmission and Distribution
11. Education (pre-school, vocational and recognized qualifications)
12. Services by way of renting of residential dwelling for use as residence
13. Interest on loans and advances and interbank forex trading
14. Public Transport (Stage carriage, railways (except first class and AC coaches), Metro/trams, inland waterways, transport in a vessel of less than 15 tonnes (other than for tourists), metered cabs, radio tax, auto-rickshaws.
15. Public Transport (Stage carriage, railways (except first class and AC coaches), Metro/trams, inland waterways, transport in a vessel of less than 15 tonnes (other than for tourists), metered cabs, radio tax, auto-rickshaws. Goods Transportation (except goods transportation agency and courier agency)
16. Funeral Services

Declared Service- Section 66(E)

The definition of service is itself very wide to cover any transaction done/to be done for a consideration. However few activities which would provide double taxation in terms of other levies of the state with a nominal difference, can lead to the objections or lack of clarity under service tax law on account of their validity in the constitution. To remove the doubts about the transaction to be considered as service or not in lieu of above argument the authority has intended to declare such activities to be service.

The following nine activities have been specified in section 66E:-

1. Renting of immovable property;
2. Construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration is received after issuance of certificate of completion by a competent authority;
3. Temporary transfer or permitting the use or enjoyment of any intellectual property right;
4. Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software;
5. Agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act;
6. Transfer of goods by way of hiring, leasing, licensing or any such manner without transfer of right to use such goods;
7. Activities in relation to delivery of goods on hire purchase or any system of payment by instalments
8. Service portion in execution of a works contract;
9. Service portion in an activity wherein goods, being food or any other article of human consumption or any drink (whether or not intoxicating) is supplied in any manner as part of the activity.

It has been argued that some of the activities declared as services in the new section 66(E) and which are proposed to be taxed by centre are in fact well within the legislative purview of the states. Some specific instances are:

a. **Renting of Immovable property:** Entry 49 of list-II, empowered the states to tax such activities and by introducing the same by centre govt., may been seen as negating the state's rights to tax land and building.
b. **Taxes on Hire Purchase:** Entry 54 of List-II, empower the states to tax intra-state sale or purchase of goods. The term sale Through hire purchase is defined in Article 366, Sec. 29(A)(C) to include "a tax on the delivery of goods by hire purchase or any system of payment by installment".
c. **Taxes on Luxuries:** Entry 64 grants power to states to tax on luxuries, including taxes on entertainment, amusements, betting and gambling. Most states have Luxury Tax Act. Despite that the union has been levying services tax on activities like beauty parlous, health and fitness centre which are patently luxuries within the legislative competence of states
d. In case of **'refrain from'** or **'tolerance'** it is better if activities can be specified to avoid unnecessary litigation.

Exempted Services:

While some existing exemptions have been built into the negative list, others, wherever necessary, have been retained as exemptions. In exempted list there are total 39 items which have been, for the time being exempted from the purview of service tax.

Other Issues

A. Partial Reverse Charge Mechanism:

Prior to insertion of sec 66 B reverse charge of services were notified as specified services where the service recipient was made the person liable to pay service tax to the Govt.

Service	Person liable to pay service tax
Telecommunication services	The Director General of Posts & Telegraph/Chairman cum Managing Director MTNL Delhi/ a company registered under companies act
General Insurance Business	Insurer/reinsurer as the case may be
Insurance Auxiliary services	Insurance agent/ person carrying on the General insurance business
Transportation of goods	Goods Transport agency
Business Auxiliary service of distribution of Mutual Fund	Mutual Fund Distributor/ Mutual Fund Agent as the case may be
Sponsorship services provided to body Corporate	Body Corporate

In addition to Reverse Charge, a mechanism of Partial Reverse Charges has been introduced in new scheme of Taxation brought out w.e.f 1.07.2012, in which the responsibility of payment of tax in specified services has been imposed on both service provider and recipient. Such services are:

S.No.	Description of a service	Percentage of service tax payable by the person providing service	Percentage of service tax payable by the person receiving the service
1	in respect of services provided or agreed to be provided by an insurance agent to any person carrying on insurance business	Nil	100%
2	in respect of services provided or agreed to be provided by a goods transport agency in respect of transportation of goods by road	Nil	100%
3	in respect of services provided or agreed to be provided by way of sponsorship	Nil	100%
4	in respect of services provided or agreed to be provided by an arbitral tribunal	Nil	100%
5	in respect of services provided or agreed to be provided by individual advocate	Nil	100%
6	in respect of services provided or agreed to be provided by way of support service by Government or local authority	Nil	100%
7	in respect of services provided or agreed to be provided by way of renting or hiring any motor vehicle designed to carry passenger on abated value. in respect of services provided or agreed to be provided by way of renting or hiring any motor vehicle designed to carry passenger on non abated value.	Nil 60%	100 % 40%
8.	in respect of services provided or agreed to be provided by way of supply of manpower for any purpose /Security services	25%	75 %
9.	in respect of services provided or agreed to be provided by way of works contract	50%	50%
10	in respect of any taxable services provided or agreed to be provided by any person who is located in a non-taxable territory and received by any person located in the taxable territory	Nil	100%
11.	in respect of services provided or agreed to be provided by a director of a company to the said company	Nil	100%

In this new mechanism of Partial Reverse Charge, **no threshold limit** is provided to the recipient in the service tax which will lead to hardship to small service providers in following manner:

- all assesses/recipient having turnover less than specified limit have to get them self registered with the deptt.
- all such assesses have to file returns and to engage Cost Accountants /Chartered Accountants/ Advocates, which will effect their earnings and it is not the intension of the govt.
- further, deptt., may not be in a position to handle the increased volume of work with existing infrastructure.
- It may add to litigation.
- Adjustment of Cenvat credit which is available to service provider against his liability to pay service tax, will not be available to many recipients.

Conclusion

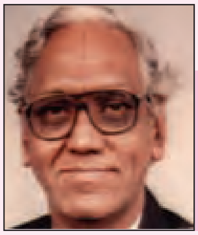
This article is spread of the all the provisions introduced by the Budget 2012 with the minute analysis. It should be kept in the mind that the tax payer claiming an exemption has to prove that he is entitled for exemption. Further in case of **Input Services** it is observed that keeping the same definition of Input Services will lead to *double taxation* as in case of many services as cenvat credit will not be available on many services. Hence it is suggested that definition of inputs can be amended by adding the following *"the credit for payments of service tax shall be allowed if such payments are included as cost component in assessable value of the product/ services for payment of excise duty/service tax"*.

Obituary

We deeply regret the sad demise of Shri Ramankutty Varier who left for heavenly abode on Tuesday, August 7, 2012. Shri Varier was a Fellow member of the Institute and past Chairman of the Cochin Chapter of our Institute. His professional experience in the field of Cost and Management Accounting spanned for more than four decades. He was one of the pioneers in the field of Cost and Management Accounting profession, having started his practice in Mumbai way back in the year 1976. Our heartfelt condolence to the members of the bereaved family.

May his soul rest in eternal peace.

Whither Capital Gains Tax?



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Introduction

If you think that the Capital gains tax is here to stay without any change, be prepared for some shock. A Committee headed by Dr.Parthasarathy Shome has recommended removal of tax on transfer of shares in listed companies. It has been argued by the Committee that a number of countries exempt capital gains tax on listed securities. India is not the only location for foreign investment. It has to compete for capital internationally. We should become capital friendly. The Revenue consideration is nothing much. To tide over our current account deficit, we need capital from the macro economic point of view as well. The Committee has gone one step further. It has suggested exempting capital gains tax for Residents also. According to the Committee, it will mean both efficiency and equity in the tax structure. The loss of Revenue can be made up by raising the Securities Transaction Tax. (STT)

The Present Law

The first Budget of the UPA Government was presented in July, 2004. Changes were made in the scheme of taxation of capital gains. None of the gains would be taxable to income tax if realized over a 'long term', i.e after a holding period of more than 12 months. For equities held for less than 12 months, the gains should be taxed @ 10% and will be known as short term capital gains. The STT was introduced along with the abolition of the LTCG. STT is essentially a tax on sales and brings with it all distortionary effect. It is not like a destination based VAT, Revenue-wise.

The Exclusion of long term capital gains from taxation had come in for stringent criticism from leading Economists. Prof. Amaresh Bagchi of the National Institute of Policy and Public Finance argued in a leading Article in the Economic and Political weekly in January 2007that from equity point of view income should include all ingredients of accretion to economic power and there can be no case for excluding capital gains from the income base for taxation. A conceptually pure income base should include capital gain on accrual itself and this was the rationale behind the comprehensive definition of income as made up of increments in the value of wealth between two points of time and the consumption of the taxpayer during the period, known as the Haig-Simons definition. "Exclusion of capital gains goes against this logic and offends both horizontal and vertical equity".

Income Tax systems all over the world proceed by taxing incomes when they are realized. But this results in 'bunching' and so under a system of progressive taxation, taking gains accruing over several years in the year of realization can give rise to inequity to taxpayers in lower income brackets. It was for this reason that long term capital gains are taxed at a lower rate with benefits of indexation for inflation. But this can lead to the peculiar phenomenon of dressing up of ordinary income as capital gains. Litigation mounts in deciding whether a particular receipt is income or capital. The practice of 'bond washing' will bear testimony to the problems that can arise when capital gains are treated differently from ordinary income.

The Kelkar Task Force

It was on the recommendation of the Kelkar Task Force that long term capital gains on listed securities came to be abolished. According to KTF, Corporate profits bear taxation in the hands of the companies. Capital gains are a reflection of retained profits. Levy of capital gains tax will amount to double taxation. This was the argument. It ignores the fact that the effective tax rate on corporate incomes is always far lower than the statutory rate because of tax concessions. Prof.Bagchi concluded, "exemption of LTCG totally from tax does not stand to reason from any account, either Revenue or efficiency or equity. Soft treatment of short term CG clearly violates equity. Some enhancement of tax on STCG is desirable to discourage FIIs from too frequent turn over of their holdings. That would also act as a check on the unhealthy volatility in the stock market which the operations of FIIs tend to generate. All STCGs should be taxed as ordinary income, whether from Securities or other assets".

The DTC Angle

The Direct Taxes Code sought to abolish the present distinction between short term investment asset and long term investment asset on the basis of the length of holding of the asset. The DTC also proposed abolition of STT. All capital gains arising from the transfer of equity shares will form part of the computation process. Roll over benefits were to be continued for investment in agricultural land, residential house and the capital gains savings scheme.

Critics have pointed out that Roll over provisions are capable of misuse. Thus the proposal in 2012-13 Budget to exempt the proceeds of house sales from capital gains tax, provided the money is invested in a small business enterprise is considered as capable of easy abuse. After all, there are lots of defunct Companies that can be acquired and passed off as an investment in a small scale business enterprise. Finance Ministry is yet to set guidelines and safeguards to ensure the purpose of exemption is achieved. The scheme for exemption in respect of sale of residential house if the proceeds are utilized for subscription in the equity of a manufacturing small scale industry for purchase of new plant and machinery happens to be the brain child of the Industry Ministry. It is now realized that monitoring of exemptions that come with end use conditions is always a big challenge. Whether the scheme as announced in the Budget 2012-13 will be implemented at all is a matter of doubt.

The Shome Panel and Mauritius

The provocation for total exemption from tax in respect of all capital gains as suggested by the Shome Committee comes from the realization that India needs Foreign Direct Investment and also institutional flows into the capital market. Said Dr.Shome, "A number of countries exempt capital gains tax on listed securities. India is not the only location for foreign investment. It has also to compete for capital internationally. We, as a country, should become capital friendly". The recommendation must be read in the light of the view expressed by the Committee that Foreign Institutional Investors coming through Mauritius should be exempted from the operation of the General Anti-Avoidance Rules.

The suggestion opens up immense possibilities. Our treaty with Mauritius was signed in 1982. It was meant to boost India's investment in Mauritius. It however proved the other way. The treaty does not enable India to tax capital gains made on the bourses by Mauritian Entity. They are liable for tax only under the Mauritian law. Mauritius however does not levy capital gains tax. Hence, this fondness for routing investments through Mauritius. India attracts maximum investments from Mauritius. It is now admitted that the FII flows from Mauritius include round tripping of money and return of black money through the FII route. This involves routing of resident Indian's illicit money back to India, mostly through Mauritius to avoid taxes. Dr. Shome would like to solve this problem by abolishing capital gains tax itself on listed securities. In its place, he would like to have an enhancement in STT. Such a course will push up transaction costs in the stock exchanges and day traders will certainly be affected. Instead, Government should consider modifying the terms of our treaty with Mauritius. India's Double Taxation Avoidance Treaty with Singapore concluded last year prescribes that a qualifying entity must be either listed in Singapore or have $200,000 of annual operating costs. There can be ways and ways of modifying our treaty with Mauritius without sacrificing Revenue considerations by total eliminating taxation of capital gains made on the stock exchanges.

Conclusion

The Shome Panel recommendations are fraught with serious consequences for our fisc. The recommendation for abolishing capital gains tax on listed securities, whether in respect of FIIs or even for residents, is opposed to all canons of equity, justice and fair play. It is retrograde and will only help in making the rich, richer at the cost of exchequer.

A Bridge too far: Selling below the Cost of Production is a new vitiating factor in determining Central Excise Assessable Value

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It has been widely believed, almost as an article of faith since 1st July, 2000, by manufacturing industries in India who have to discharge their Central Excise Duty obligations that the ruling norm in Central Excise valuation having shifted to the concept of transaction value, the commercial price charged by everyone of them, of course on an arm's length basis untainted by any extra consideration flowing back from the buyers, would form the basis of central excise assessable value and that it also meant that they were free to sell at any price as they deemed fit under relevant market conditions. In other words, a manufacturer was considered to be at liberty to charge any market price, even if it was below cost of production for that particular commodity, or even if there was an element of cross-subsidization among various products manufactured and sold by the manufacturer. The new valuation law in Central Excise has so far been understood to bestow recognition of the transaction price, so long as the seller and the buyer were not related parties and there was no additional consideration in the transaction flowing back to the seller. This justifiable understanding of the Law has held the field ever since the 1st of July 2000.

Prior to 1st July 2000, the Central Excise Valuation Law was based on a concept of 'Normal Price', which compelled a comparison with the price of such or like goods manufactured and sold in the market. Under the system of Normal Price, a manufacturer could be questioned if he were to adopt a price lower than the cost of production if such price was not the average comparable market price for the products in issue. The then guiding norm of 'normal price' had a constricting effect on the excise registered manufacturers. The excise duty was then payable only if it was comparable to the normal market price of the product. Of course, the conditions that the buyer and the seller should not be related to each other and that there should not be any additional consideration flowing back from the buyer to the seller were also present in the law then as they are now. The new water-shed of transaction value introduced from 1st July 2000 was a very welcome liberalizing rule, which recognized that manufacturers should be allowed to determine excise assessable value on the basis of any selling price charged as they wish, even if it was below cost of manufacture, in their wisdom of ascertaining market needs and the level of commercial acceptability. Thus, the new Central Excise Valuation Law recognized commercial pricing freedom and the degree of price choice exercised by the manufacturers. The determination assessable value was implicitly based on such factors and the reality that barring the apparently suicidal, no one in his right mind would sell at a loss consistently or frequently. Thus, even if the assessable value was below the cost of production, the new valuation law did not object to it if it was an untainted sale made at arm's length between the seller and the buyer and where the seller did not derive any consideration of a commercial nature, either directly or indirectly, from the buyers concerned. Various Courts and Tribunals held, even where the transactions were made by the seller to related companies that if the transactions concerned had a transaction value similar to those charged for unrelated buyers, the same would be acceptable.

An Unexpected Bolt From The Blue

The seemingly placid waters on Central Excise Valuation as broadly seen from 1st of July 2000 have been stirred by way of a new development. The case under reference decided by the Supreme Court is ***Commissioner of Central Excise, Mumbai Vs Fiat India Private Limited – 2012 (283) E.L.T. 161 (SC)***. The facts in issue in this case are briefly as follows:-

M/s. Fiat India Private Limited put up a car assembly plant and entered the Indian Car Market in 1996. The Company had taken over from M/s. Premier Automobiles Limited. In order to penetrate the Indian car market and facilitate the sale of their cars, they sold them at an assessable value of slightly under Rs.2.00 lakhs as compared to the cost of production of about Rs.4.00 lakhs. The Company adopted such a selling pattern for several years in succession. Their stated objective was to put their cars in the Indian market and they were willing to suffer the loss of money. The Jurisdictional Central Excise Department issued tax demands against the Company arguing that the sale price was not a 'normal price', as it was well below the cost of production. The department adopted an average manufacturing cost supported by the findings of a practising Cost Accountant and confirmed the demand of differential duty said now to be in the region of Rs.432.00 crores. The period covered in the dispute was largely confined to the period prior to 1st of July 2000, but a notable part of the period fell outside 1st July 2000. Thus the case period straddled a time span when two concepts were ruling the roost in Central Excise arena – the concept of 'normal price' and the 'norm of transaction value', respectively.

In a Judgment spanning 71 paragraphs, the Apex Court laid down stunning new ratios whose reverberations are set to echo even into the era of Goods and Services Tax. The Hon'ble Supreme Court inter alia in the case has laid down the following new principles in Central Excise Valuation:-

QUOTE

59. To attract Section 4(1)(a) of the Act what is required is to determine the 'normal price' of an excisable article which price will be the price at which it is ordinarily sold to a buyer in the course of wholesale trade. It is for the Excise authorities to show that the price charged to such selling agent or distributor is a concessional or specially low price or a price charged to show favour or gain in return for extra-commercial advantage. If it is shown that the price charged to such a sole selling agent or distributor is lower than the real value of the goods which will mean the manufacturing cost plus manufacturing profit, the Excise authorities can refuse to accept that price.

60. Since under new Section 4(1)(a) the price should be the sole consideration for the sale, it will be open for the Revenue to determine on the basis of evidence whether a particular transaction is one where extra-commercial consideration has entered and, if so, what should be the price to be taken as the value of the excisable article for the purpose of excise duty and that is what exactly has been done in the instant caser and after analyzing the evidence on record it is found that extra-commercial consideration had entered into while fixing the price of the sale of the cars to the customers. When the price is not the sole consideration and there are some additional considerations either in the form of cash, kind, services or in any other way, then according to Rule 5 of the 1975 Valuation Rules, the equivalent value of that additional consideration should be added to the price shown by the assessee. The important requirement under Section 4(1)(a) is that the price must be the sole and only consideration for the sale. If the sale is influenced by considerations other than the price, then, Section 4(1)(a) will not apply. In the instant case, the main reason for the assessees to sell their cars at a lower price than the manufacturing cost and profit is to penetrate the market and this will constitute extra commercial consideration and not the sole consideration. As we have already noticed, the duty of excise is chargeable on the goods with reference to its value then the normal price on which the goods are sold shall be deemed to be the value, provided: (1) the buyer is not a related person and (2) the price is the sole consideration. These twin conditions have to be satisfied for the case to fall under Section 4(1)(a) of the Act. We have demonstrated in the instant cases, the price is not the sole consideration when the assessees sold their cars in the wholesale trade. Therefore, the assessing authority was justified in invoking clause (b) of Section 4(1) to arrive at the value of the exercisable goods for the purpose of levy of duty of excise, since the proper price could not be ascertained. Since, Section 4(1)(b) of the Act applies, the valuation requires to be done on the basis of the 1975 Valuation Rules.

61. After amendment of Section 4:- Section 4 lays down that the valuation of excisable goods chargeable to duty of excises on ad-valorem would be based upon the concept of transaction value for levy of duty. 'Transaction value' means the price actually paid or payable for the goods, when sold, and includes any amount that the buyer is liable to pay to the assessee in connection with the sale, whether payable at the time of sale or at any other time, including any amount charged for, or to make provisions for advertising or publicity, marketing and selling, and storage etc., but does not include duty of excise, sales tax, or any other taxes, if any, actually paid or payable on such goods. Therefore, each removal is a different transaction and duty is charged on the value of each transaction. The new Section 4, therefore, accepts different transaction values which may be charged by the assessee to different customers for assessment purposes where one of the three requirements, namely, (a) where the goods are sold for delivery at the time and place of delivery; (b) the assessee and buyers are not related, and (c) price is the sole consideration for sale, is not satisfied, then the transaction value shall not be the assessable value and value in such case has to be arrived at, under the Central

Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 ('the Rules 2000' for short) which is also made effective from 1st July 2000. Since the price is not the sole consideration for the period even after 1st July 2000, in our view, the assessing authority was justified in invoking provisions of the Rules 2000. (Emphasis added)

Unquote

The following principles can be deduced from the ratio of the above landmark decision:-

1. When Selling Below Cost Of Production Is Acceptable For Central Excise Valuation Law

The Apex Court has cited certain instances as an illustrative list.Loss-making price is contrary to the expression 'ordinarily sold'. Selling below cost is acceptable only where a manufacturer was to switch over his business for any other manufacturing activity or where the goods could not be sold within a reasonable time.

2. When Selling Below Cost Of Production Is A Vitiating Factor For Determining Central Excise Assessible Value

The Supreme Court has not accepted the contention of 'market penetration' as a legitimate tool in arriving at the assessable value. Barring the instances and like nature alluded to by the Apex Court in para 50 of the Judgment, the Central Excise assessable value cannot be based on a loss price. In my view, the rejection of the idea of 'market penetration' as a valid determiner of excise assessable value puts in jeopardy the legitimate, unexceptionable business strategies of cross-subsidization of product ranges commonly seen in the industry.

3. The Ratio Of Judgment Is Applicable To The Concept Of Transaction Value Even After 1st July 2000

The Apex Court has pointed out that price as the sole consideration is a continuing norm in Section 4 of the Central Excise Act even after the amendment with effect from 1st July 2000. Therefore, the Court has asserted that a 'loss' price cannot be acceptable and will have to be re-determined by invoking Central Excise Valuation Rules, 2000.

4. The Meaning Of 'Ordinarily Sold'

The Court has held that when the sale value is based on below cost of production, it cannot be said that the goods are not in the ordinary course of sale or trade. The term does not mean only a majority of sales and it requires that the price should not be exceptional, extra-ordinary or unusual.

5. Excisability And Ownership Of Goods

The Supreme Court has held that the taxable event for attracting excise duty is the manufacture of excisable goods. The charge of duty is attracted as soon as the taxable event takes place and the facility of postponement of collection of duty under the Act or the Rules framed thereunder cannot affect the incidence of duty. The sale or ownership of the end products is also not relevant under Central Excise. Excise duty is payable even in the case of free supply or when the goods are given as replacement. 'Sale' is not a necessary condition for charging excise duty.

The landmark decision of the Hon'ble Supreme Court has affected the applicability of a catena of decisions from the Apex Court downwards holding that the selling price, if it is at arm's length, will be acceptable as excise assessable value even if it were below cost. The new ratio in the latest decision is that it is held to be applicable to the transaction value, which as a new paradigm was considered to have marked a break with past with effect from 1st July 2000. In this connection, it will be of interest to notice that in the case of CCE, Indore Vs. Grasim Industries Limited – (2009) 241 ELT 321 (SC), the issue whether the concept of transaction value signals a radical departure from the concept of deemed normal price that prevailed prior to 1.7.2000, has been referred to a larger bench and the decision is awaited. The terms of reference were framed as follows:

Quote

15. Since the issues arising in these appeals are of seminal importance and are likely to have serious ramifications on the question of determination of assessable value of the excisable goods for the purpose of levy of duty of excise, we are of the view that the following issues require consideration by a larger Bench :

1. Whether Section 4 of the Central Excise Act, 1944 (as substituted with effect from 1-7-2000) and the definition of "Transaction Value" in Clause (d) of sub-Section (3) of Section 4 are subject to Section 3 of the Act?

2. Whether Sections 3 and 4 of the Central Excise Act, despite being interlinked, operate in different fields and what is their real scope and ambit?

3. Whether the concept of "Transaction Value" makes any material departure from the deemed normal price concept of the erstwhile Section 4(1)(a) of the Act?

16. Accordingly, we direct the Registry to place this order before Hon'ble the Chief Justice of India for appropriate directions.

Unquote

It would have been very desirable if the Bench in the Fiat Industries case had chosen to await the decision of the larger bench since it would have a material influence on the ratio reached in the Fiat Industries case. However, in defense of the Fiat bench it may be said that the above referral does not appear to have been brought to its notice.

Conclusion:

The verdict of the Hon'ble Supreme Court of India in the Fiat India case is bound to cause ripples in the settled waters of an area of Central Excise Valuation Law concerning the recognition by Law of the commercial freedom of choice of price enjoyed by the manufacturers in determining their Central Excise assessable value even when such price was below cost. Now, this new development may lead to the certain possibility of the Central Excise Department questioning all the transactions where the manufacturers had to sell below cost of production for one reason or the other. The Department may even resort to increased cost audits in both Central Excise and Service Tax arenas. The impact of the Judgment has a potential to echo in VAT Jurisprudence also, where a trader may often sell below cost of production initially to prise open a market or seek an entry or as a tactical price-cutter. The Judgment is not all gloom and doom, though. It has left the door slightly ajar in so far as it recognizes some mitigating circumstances under which an assessee can validly sell below cost and adopt an assessable value on that basis. Plus, it may be possible that the losing parties could ask for a review based on the above cited referral. Anyway, it comes as a fresh opportunity for the Cost & Management Accountants in India, who may now be in greater demand from the Department of Central Excise itself.

Globalisation, Technology & HR in Banks

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Globalisation

The economic reforms undertaken by the Government in India in last two decades have their genesis in the diverse intellectual and political agenda of the developed nation which had looked for the market for their products World wide. Such agenda aims at radically transforming the social and economic institutions throughout the globe. The globalisation can thus be described as a set of socio-economic changes so as to align with international practices and benchmarks leading to a transformation of economic conditions and institutions through the process of widening and deepening of international flow of trade, technology, capital, information and Human Resources within single integrated global market.

Globalisation has changed the entire market dynamics across sectors. It is observed that the focus of gloablisation is on the developing countries led by Brazil, Russia, India, China and South Africa popularly known as BRICS nations. It is mainly because the BRICS nations offer huge market potential for the proponents of globalisation. The ideology of the champions of globalisation is quite dominant. It influences the thinking and the style of the policy makers in the target nations while also influencing political practices across the world spectrum. The proponents of globalisation believe that the globalisation would produce the best outcome for the growth and well being of humanity. The globalisation as a tool supports convergence in international activities such as increasing the production of foreign goods and services, increase in consumer demand in emerging markets, falling barriers in international trade, rapidly changing technology and so on. Globalisation has created mutual dependence between various countries in the global economy. The financial sector including banking have been significantly influenced by the globalisation of the world economy.

The important components of globalisation include the following:-

- Social Reforms
- Economic and financial Reforms
- Trade Reforms
- Institutional Reforms
- Market Reforms
- Regulatory Reforms
- Liberalization
- Privatization
- Technology Innovation and Development
- International Acquisition and Mergers
- Global Takeover and Buyouts

The process of reforms carried out in India has transformed the business of Banking substantially. The business models of the Banks in India have undergone a shift from plain Vanila Banking to Universal Banking, manually driven to technology driven, regulated regime to deregulated regime, Urban Banking to rural Banking and so on……….. On the other hand the process of globalisation has greatly transformed the models of business in different sectors of the economy having linkages with the Banks. All these reforms have created a need for newer skill sets to manage the change caused by the Globalisation.

Technology

Technology in today's context has assumed an important role as a key driver of the Business of the Banks. Starting from Advance Ledger Posting Machines (ALPM) to Stand Alone Computers (SAC) to Total Branch Automation (TBA) to **Core** Banking Solution (CBS), the technology in the Banks has come full circle. There are two types of Technology Models in the Banking Industry viz., Bank owned Technology Model and Vendor Owned Technology Model.

Both the models have their strengths and weaknesses. While Bank Owned Models are very cost effective and provide larger degree of data security, the Vendor Owned Models are based on the latest technology which comes at a higher cost and provide greater competitive edge. Technology innovations aim at bringing about the efficiency in operations in a cost effective manner. It facilitates efficient Management Information System (MIS), Development of e-products, study of different market segments, extension of Back Office Support Service etc. The Banks therefore need to develop and maintain the IT in an effective manner. Apart from this the Vendor engagement and Vendor Management also need to be done in an effective manner. Learning, Unlearning and Relearning are the hall mark of today's technology driven banks in India. Various Risk Management Models in the Banking Industry are Technology Based and need specific Technology Platforms for a successful Risk Management Strategy implementation. Exotic e-products like NEFT RTGS, Internet Banking, Mobile Banking, e-banking, ATM etc have become very popular. The conventional methods of "Turn the page and learn the Work" have been rendered meaningless in today's banking. Rapidly changing nature of Technology has brought about revolutionary changes in the Banking Space. New Generation Private Sector Banks being outside the scope of jurisdiction of Central Vigilance Commission enjoy a greater degree of freedom and autonomy vis-à-vis the Public Sector Banks in the matter of Technology acquisition and its upgradation. Rigidity of compliance with CVC procedure in procurement and acquisition of new Technology and fear of accountability results in delay to complete the process, whereby the Public Sector Banks lose the competitive advantage afforded by the new technology. Eventually the process of globalisation has resulted in changing the face of the front office delivery channels in Banks. To acquire, use, manage and maintain the new technology the Banks do need better equipped newer skill sets.

Human Resources Factors

As a part of my doctoral study, I conducted a pilot survey among the three Public Sector Banks at Chennai. The questionnaire was administered on 60 officers of different grades from Junior Management Grade Scale I to Top Executive Grade Scale VII posted at Branches and administrative offices at Chennai in the month of April 2012. The validity was tested by using statistical tools. The statistical analysis showed 94% validity and 96% factor analysis.

The study consisted of the examination of the impact of globalisation on the following select business dimensions:

a. Capital Structure and Regulatory Frame Work,
b. Technology Innovation and Development,
c. Universalisation of Banking Business,
d. Credit Management,
e. Integrated Treasury Management and
f. Risk Management.

The second part of the study revolved around the following select HR factors:

a. Identification of skill gaps,
b. Sources to bridge the skill gaps,
c. Development and Leadership,
d. Compensation,
e. Performance Evaluation,
f. Accountability,
g. Retention and attrition,
h. General Perception.

The study established that there was a significant relationship between the process of globalisation and various business dimensions selected for the study. The officers in the target group largely agreed with the hypothesis that there was a significant relationship between the process of globalisation and changes in the given business dimensions as shown below:-

Table - I

Sl.No.	Business Dimension(Variable)	Percentage of Respondents Agreeing with the Hypothesis
1	Capital Structure & Regulatory Frame Work	98.57
2.	Technology Innovation & Development	96.52
3.	Universalisation of Banking Business	97.70
4.	Credit Management	98.72
5.	Integrated Treasury Management	98.46
6.	Risk Management	97.27

In the next step, the need for identification of skill gaps was studied. The findings of the need for identification of skill gaps in the sphere of each of the selected business dimensions were quite satisfactory and substantially confirmed the hypothesis of the study. It was well established that there was a significant relationship between globalisation and need for identification of skill gaps for new Business Models.

The responses from the target group also established that post globalisation, the existing skill gaps needed to be complimented by newer skill sets. The responses received from the target group about the need to identify newer skill sets in respect of each of the selected business dimensions have been captured and converted into percentage. The findings are summarized in the table given below:-

Table - II

Sl.No.	Business Dimension(Variable)	Percentage of Respondents supporting need to identify skill gaps
1	Capital Structure & Regulatory Frame Work	94.44
2.	Technology	95.00
3.	Universalisation of Banking	96.67
4.	Credit Management	93.00
5.	Integrated Treasury	95.00
6.	Risk Management	95.00
	Average	94.85

It can be seen from the above findings that the Credit Management being an old business dimension has attracted the lowest response as compared to other business dimensions which have emerged as completely new dimensions post globalisation or have been impacted significantly due to globalisation practices. Universal Banking which is practiced by more number of officers in the Banks has naturally attracted the highest response followed by Technology, Integrated Treasury and Risk Management. In general 94.85 percent respondents have felt the need for the identification of skill gaps and complementing the available skill sets by newer skill sets in these areas of Business of Banking. These findings formed the basis for studying the sources to bridge the identified skill gaps by adopting a fair mix of the following strategies:-

i. By re-skilling and upskilling through trainings
ii. By talent acquisition and retention management
iii. By resorting to Outsourcing

The study revealed that the skill gaps are filled by re-skilling/ up-skilling through internal training in the perception of 90% of the respondents while 94% respondents held the view that higher degree of skill gaps are addressed by sending the officers for External Training. A hopping 98.5% respondent were of the view that the attitudinal problems on the part of the existing manpower do not create a hindrance in addressing the skill gaps. The people in the higher age band also are willing to undergo training for re-skilling and up-skilling. More than 90 percent respondents hold the view that addressing the skill gaps internally largely depends on the competency level of the trainers and the degree of its effectiveness. There were relatively less takers for addressing skills gaps through recruitment of Specialists Officers (58%) and by outsourcing the specialized functions (61.70%). On the other hand about 73% respondents felt that outsourcing posed an operational risk in specialized functional areas due to lack of ownership, responsibility, loyalty and accountability involved in outsourcing. The study revealed that in the operational areas like cash Management, Clearing Operations, Management of ATM/ Network etc., the Banks are practicising outsourcing largely and 95% respondents were aware about such practices. Such practices of outsourcing of operational functions has reduced the need for fresh acquisition of talent to manage the routine in such areas of operations.

Talent Management

Talent Management broadly involves application of the following HR practices in the Public Sector Banks.

i. Development and Leadership
ii. Compensation
iii. Performance Evaluation
iv. Retention Management
v. Accountability

Development & Leadership

Development and leadership as an HR practice plays a significant role in pursuing a healthy succession planning in the Bank. It is done through job enrichment and empowerment of the pipeline leaders. It is important to have Quality Management to implement a good and sustainable Leadership Development Programme on a regular basis. The Banks which have been successful in their leadership development programmes have been able to not only produce the leaders for Banking Industry but have also been able to create better Brand Value for their Bank and thereby enhancing their share price index. It has thus served the interest of various stake holders much better than those banks which did not have good leadership development programmes. It is significant that the morale of the workforce is greatly related to the Leadership Development and the brand value of an organization. It also helps the employees to get better prospects of their career progression thereby motivating them to slow higher levels of performance outcomes.

The business of Banking involves mobilization of resources and deployment of such resources with a view to protecting money of the depositors, earning adequate amount to help pay an interest to the depositors and plough back some part of profit after paying dividend to strengthen the balance sheet and help further expansion of business. It is therefore necessary for the Bank Leaders to practice ethical, honest, transparent policies leading to healthy Corporate Governance. Leadership development programmes must bear it in mind.

Development and Leadership are also essential rather critical in evolving a sustainable succession planning. A ban on recruitment in Banks in 1985 which continued for about 12 years has significantly derailed the process of Succession Planning in Banks by creating a huge generation gap. A special Voluntary Retirement Scheme 2000 followed by restrictions on recruitment for next 5 years has only worsened the age profile of officers. Hence the development of leadership needs to be crafted and drafted more carefully. It should be remembered that the potential strength of today's leaders would determine the future of Public Sector Banking.

Compensation

Apart from the perceived employer value proposition/ brand value of the Bank, the entry level compensation package plays a vital role in attracting the talent as there is high degree of relationship between the compensation offered and demand for the job. It therefore would have a bearing on the quality of recruits and also the motivation level in the organization. Level of job satisfaction is also considered an H.R. Variable closely related to the monetary compensation package for the post. The employees with a higher compensation package are found to be willing to take higher responsibilities with more risk appetite. Higher Levels of accountability and willingness to accept mobility are also largely stimulated by the adequacy of the compensation package offered. A huge 98.33% respondents were of the view that the post globalisation distortion of the external parity in the compensation structure of the Bank officers vis-à-vis the Government officers has rendered the Bank job less attractive and has thus adversely impacted the quality of recruits in recent years. More than 90% of the Respondent held the view that due to deteriorated compensation structures for Bank officers their level of job satisfaction, motivation, willingness to accept higher assignments, risk and mobility have been significantly impacted. 98.4% of the respondents felt that even the introduction of performance linked incentive scheme in the present form has not been successful in enhancing the performance outcomes of the officers in the Banks. 95% respondents were of the view that hygiene factors like transparent corporate communication, congenial work atmosphere, emotional support in times of official and person distress, power and authority for effective functioning, work-life balance, defined Working hours, adequate manpower, equitable workload balancing and job security beyond the compensation structure play an important role in performance enhancement and hence such non-monetary factors need to be improved in the Public Sector Banks.

Performance Evaluation:

The basic objective of a Performance Management System is to evaluate the employees' performance to help take unbiased decisions with regard to rewarding and recognizing the employees. Other important aspects of performance evaluation relate to deciding about placements, incentivisation and career progression. It also helps in identifying the skill deficits and need to address the deficit by appropriate training programmes and prepare the effective leadership position for a sustained succession planning. 67% of the respondents were of the new that performance management system in the Public Sector Banks is not considered adequate in the post-globalisation era. Majority of the respondents were of the view that performance evaluation system in their Banks was not being objectively used for the purpose of rewarding the employees across cadres or for recognizing the performance outcomes. Placements and incentives were decided on the basis of an objective evaluation of employees performance but not quite significantly. However the performance evaluation did play a significant role in considering the suitability for higher promotions for the simple reason that it has got a concretized weightage in the promotion processes across the grades. Succession Plannings in Public Sector Banks are not strictly based on Performance Evaluation and arbitrariness does play a role in addition to objectivity of Performance Evaluation: 97% of the respondents held the view that re-designing and standardizing the performance measurement tools in Public Sector Banks for each specialized stream will enhance the effectiveness of performance measurement system in the Banks. A huge 98.3% of the respondents concurred with the view that introduction of the integrated performance incentive model where the team and individual performances are suitably rewarded based on their respective achievements will go a long way in enhancing the motivation level in Public Sector Banks. Feedback, public applause and recognition are also vital for a vibrant & successful Performance Evaluation System.

Retention Management

Retention Management is a comprehensive HR Factor. Building a Healthy Human Resource Pool must be a long term commitment of an HR Manager. It would essentially depend on overall performance and reward management. The following factors also play significant role in Retention Management:

vi. Employer Value Proposition / Brand Value
vii. Non-monetary Hygiene Factors
viii. Job Enrichment
ix. Career Progression
x. Recognition of high performance
xi. Weightage to self-rating
xii. Participative Management for General Empowerment
xiii. Building Trust and Institutional Loyalty
xiv. Creating Positive Attitude towards work and clients
xv. Social values
xvi. Organisational Values

xvii. Individual P's Personal Values
xviii. Creating Winning Teams
xix. Creating Learning Institutions

An objective and balanced management of these factors has a significant relationship with Talent Retention in the Banks. Job Security assured in Public Sector Banks has been an important factor in making people stick on to the Bank job. Despite the virtual absence of exit level interviews, there is a fair amount of talent retention in Public Sector Banks. Placement and deployment practices in Banks have also got a bearing on talent retention strategies in the Banks. Majority of the respondents agreed that reduced job satisfaction and greener pastures outside the Bank are considered by the new recruits to hop jobs even within the Public Sector Banks. 98.5% respondents held the view that the placement and mobility outside the comfort zone have a significant influence on the employees to decide about continuing or quitting the job. However, the state-wise trends in recruitment and existence of vacancies pan India, especially in different language zones have been posing a serious problem before the HR Managers in creating larger employee satisfaction and to de-escalate the level of attrition in Public Sector Banks.

Accountability

It has been widely acknowledged that the Banks with high disciplinary action cases could not maintain sustained Performance advantage as it is having significantly negative association with employee productivity. Excessive accountability is also significantly associated with risk aversion tendencies on the part of the officers. On the other hand the collective decision making through a committee approach acts as an insulation against the accountability at a significantly higher levels of hierarchy. The Banks which provide protection for the bonafide decision can have a more confident team of officers. It has also been seen that the confidence leads to better quality of decision making and also uplifts the morale of the Human Resources in the Public Sector Banks. It has also been seen that there was least tolerance for inferable malafides. The study revealed that the accountability in Public Sector Banks was subject to superintendence of Bank's own Vigilance Department, Central Vigilance Commission, Central Bureau of Investigation, Reserve Bank of India, Central Government and State level Police and such multiplicity to deal with the issue of accountability in Banks has created high degree of fear psychosis as revealed by 95% of the respondents to the study. More than 90% of the respondents held the view that the practice of fixing accountability in a rigid manner has acted as an antithesis to the motivation in Public Sector Banks. The respondents were of the view that the bonafide actions of officers enjoy the protection from accountability was only on paper and not so practicised in the Banks in respect of those officers who were at the relatively lower levels of hierarchy in the Bank. 96% of the respondents supported the view that inferable malafides on the part of the employees are dealt with ruthlessly in Public Sector Banks.

Micro Management of HR Function by Government

The Banking Institutions to be successful need:

- Highly skilled manpower
- Latest Technology & processes
- Product Innovation
- Attitude to Serve
- Cost effective Pricing
- Effective Sales Force
- Effective cross functional Training Infrastructure
- Outstanding Performance outcomes

All these were sought to be achieved through a well thought process of granting managerial autonomy to Public Sector Banks which fulfilled the laid down performance criteria. It was by way of empowering the Board of the Public Sector Bank to decide on all HR issues including Pension, Recruitment etc. Such Managerial Autonomy was granted both by the NDA and UPA Governments at the Centre. The UPA Government also documented it in its agenda - the National Common Minimum Programme in the form of the main objective of the Government Policy as follows:-

i. To devolve full managerial and commercial Autonomy to successful profit making Public entities operating in a competitive environment.
ii. Public Sector companies and Nationalised Banks will be encouraged to enter capital market to raise resources and offer new investment avenues to retail investors.

The Government had earlier made it clear that it was committed to empower the Public Sector enterprises and their Managements. It was also recognized that they could not compete with private enterprises without freedom to function and operate commercially. The reforms to meet these objectives included -

- Delegation of Managerial Autonomy
- Professionalisation of the Board of Directors
- Evaluations of the Performance of Public Sector Banks through the Statement of Intent.

The HR Management was sought to be treated not only as a Change Agent but also as a Business Strategic Partner for optimum utilization of all the Human Resources for achieving short term and long term goals of the organization. It was considered desirable for the HR to aim at increasing the organizational effectiveness by aligning employee's efforts to the objectives of the organization. Such expectation created pressures on HR Managers in the Banks to attract and retain talent.

In this backdrop the Government has issued a series of guidelines on Recruitment, Promotions, Deployment, Mobility, Performance Management & Evaluation, Performance Incentives etc. New guidelines amounted to withdrawal of Managerial Autonomy and rendering the Boards of the Banks as a helpless bunch of Directors who were individuals but not independent.

The Boards are crippled and precluded from exercising their collective wisdom to even modify the Government prescriptions to suit the needs of their respective Banks, to enhance the morale and motivation level of the employees. The prescription of "One size fits all" is sought to be forced on the Public Sector Banks who are otherwise expected to be competitive in the market place which includes New Generation Private Sector Banks, Foreign Banks and other Private Financial Institutions and Non-Banking Finance Companies dealing in several financial products. The new model whereby the Government has directed Public Sector Banks to follow a common formula for identification of vacancies at the level of Assistant General Managers, Deputy General Managers and General Managers has created anomalous situation and has also resulted in destabilizing the existing structure of hierarchy in Public Sector Banks.

The study revealed that 71% of the respondents felt that the Government considered the lateral recruitment as an instant solution to the malady of the talent crunch at top level. 80% people felt that the Boards had no option but to accept and implement the guidelines received from the Government – contrary to this view the trade unions considered such a measure as a short sighted solution, which will demoralize the existing workforce. It was so substantiated by 97% of the respondents. 95% of the respondents held the view that a long term solution to fill up leadership positions lied in a sustainable internal succession plan. 87% respondents favoured different Performance Appraisal System due to prevalence of different systems and procedures across Banks as common parameters may not offer right solutions. 86% of the respondents were of the view that divergent cultures and organizational climate have a direct impact on performance evaluation and reporting systems in different Banks. 92% respondents favoured Bank specific promotion policy within the overall legal framework. As per 90% of the respondents the recent uniform promotion gudelines are considered not only water-tight but also retrograde step vis-à-vis the Managerial Autonomy which was granted to Public Sector banks in the earlier years of the period of globalisation. 80% of the respondents agreed with the perception that the latest guidelines providing for fast track promotions will result in an inadequate seasoning and grooming of officers for further leadership positions.

It is heartening to lean that the Government on the recommendations of Central Vigilance Commission has put curbs/restrictions on take over of borrowal accounts from those banks where the EDs/CMD of the Bank had earlier served. This measure should result in the improvement of Asset Quality and enhance the customer loyalty which was fast declining due to such customer migration.

97% of the respondents disagreed with the Government prescription of a **'mathematical ratio approach'** to identify AGM and DGM vacancies in a given proportion to the predetermined GM vacancies. Such view is considered impractical because AGM and DGM vacancies would depend on number of branches, regions circles, Zones etc., of the prescribed business mix. 95% of the Respondents believed that the different organisational structures have impact on number of vacancies at higher levels which may not have any logically established co-relation with the number of GMs in the Bank. It is thus clear that the attempts of the Government to micro-manage the HR Portfolio of the Public Sector Banks has not gone down well with the officers who have larger stakes in overall talent management strategies of the Public Sector Banks.

Conclusions

Globalisation has transformed the Banking landscape by changing the traditional business models and also creating new models. To effectively meet such changes, the Public Sector Banks need newer skill sets. These skill sets are addressed through re-skilling and up-skilling the existing pool of human resources, recruiting Human Resources who pre-possessed the required skills in various specialized functions and by outsourcing some of the routine / mundane functions. There is lack of attraction in the job of a Bank officer and despite downturn in the economy and high unemployment rate the banks are finding it difficult to fill up the identified vacancies state-wise thus leading to deterioration in the quality of new recruits. To enhance the level of job attraction, the Bank in Public Sector need to overhaul the Recruitment and Training Models, introduce a transparent and realistic Performance Management System which adequately rewards individual and team performances in an objective manner. Banks also need to enhance the compensation package across the grades as a strategy to attract the right kind of talent and also to retain the trained and leadership talent. Placement, deployment and accountability policies need to be made more friendly to enhance the level of job involvement, decision taking and minimizing the growing risk- aversion tendencies among the individuals. An investment in training infrastructure - both physical and intellectual will help re-skilling, up-skilling and transforming the employee attitude to serve the client. Awareness about the product and process coupled with a positive attitude will provide a competitive edge to the Public Sector Banks. Enhancement in the non-monetary hygiene factors would help the Banks in managing talent retention / attrition more effectively.

Limitations of the study

The impact of globalisation on HR is perceptional derivation and not scientific. Studying a dynamic phenomenon from a cross sectional perspective, poses limitation as capturing the process over the two decades of Globalisation is difficult.

Performance Evaluation of Different Equity Mutual Funds in India

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Abstract

India is witnessing a big boom in mutual fund industry. A large no of new players have entered the market. The Indian mutual funds industry is witnessing a rapid growth as a result of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles like Fixed Deposits (FDs) and postal savings that are considered safe but give comparatively low returns. Mutual funds are one of the most favoured investment routes for the small and medium investors across the world. Ideally, Mutual funds provide opportunities for small investors to participate in the capital market without assuming a very high degree of risk. In few years Mutual Fund has emerged as a tool for ensuring one's financial well being. Mutual Funds have not only contributed to the India growth story but have also helped families tap into the success of Indian Industry. As information and awareness is rising more and more people are enjoying the benefits of investing in mutual funds. The study deals with the performance of various Mutual Funds and compares it with the respective bench mark index in the market. Sharpe & Treynor method, beta, standard deviation is used. The beta analysis shows that the funds are highly volatile The major findings here is that all funds underwent a deep decline in the year 2008 due to financial crisis & in the year 2009 stock market showed a upward trend.

Key words: Beta, Sharpe & Treynor, Standard deviation, Risk, Bench mark Index

Introduction

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Investors need to know how risky individual assets are and what their contribution to the total risk of a portfolio would be. Plenty of Mutual Funds are available where the investors can put their money. Mutual funds provide opportunities for small investors to participate in the capital market without assuming a very high degree of risk. An important principle of investment in capital market is that do not put all the eggs in one basket i.e. diversification. A small investor is not able to diversify his portfolio mainly due to limited resources. However, a mutual fund pools together the savings of such small investors and invests the same in the capital market and passes the benefits to the investors. Thus, investors can indirectly participate in the capital market by subscribing to the units of mutual funds. Mutual funds employ professional fund managers to manage the investment activities. Therefore, investors also get benefits of professional expertise of these managers.

Objectives Of The Study

1. To compare the performance of different mutual funds.
2. To study and compare the return of equity mutual funds with their respective benchmark index.
3. To study the best performing funds using Sharpe and Treynor measures

Statement Of The Problem

Mutual fund industry is one of the most preferred investment avenue in India. However with a large no of schemes to choose from, the retail investor face problems in selecting funds. Though the funds record is an important indicator, past performance alone cannot be indicative of future performance. It is still a quantitative way to judge the fund's performance. Therefore there is a need to correctly assess the past performance of different mutual funds & there must be some performance indicator that will reveal the quality of stock selection of various AMC'S. The idea behind the study is to find the returns provided by different schemes and the risk levels at which they are delivered in comparison with the market and the risk free rates.

Limitation Of The Study

1. Only open ended funds, which are more than five years old, has been considered.

Methodological Framework

The period of study selected is 2008-2012 because of the availability of the data. The criterion for the scrutiny of Growth Funds is returns, Sharpe's ratio, Treynor's ratio, Risk adjusted return. Source of data is purely secondary in nature which will include journals, websites and factsheets of the selected mutual funds. The information related to the resources mobilized for mutual funds by various participants has been collected from the various releases by SEBI, AMFI India, The Economic Times, Business Line and CMIE Database. Mostly these are second hand information used for data analysis.

ANALYSIS

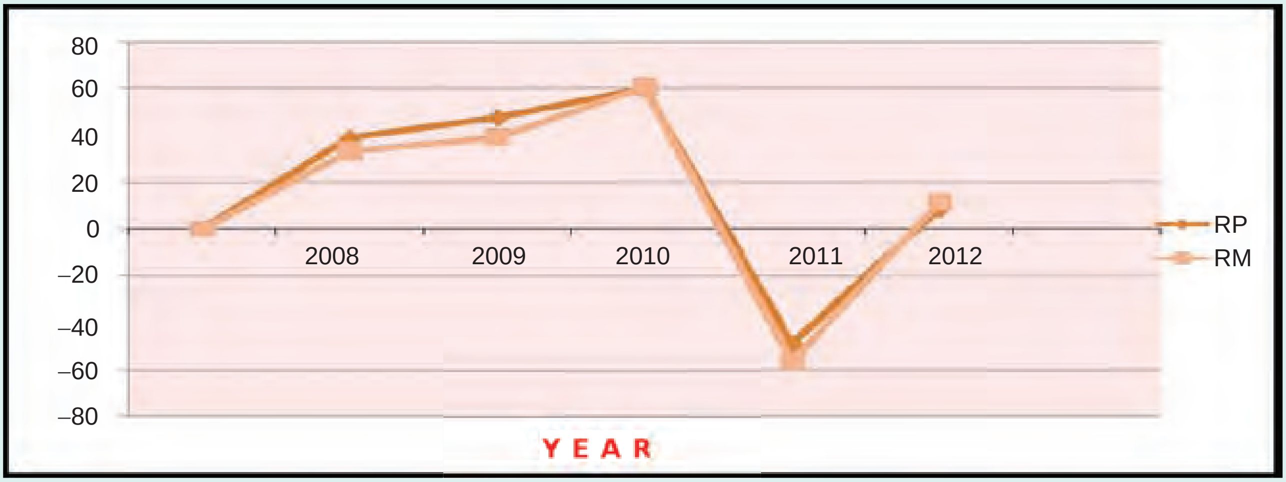
Table 1: Showing comparison between Birla Sunlife Frontline Equity Fund with Market Indicator (BSE200)

	NAV				BSE200			
Year	Opening	Closing	Rp	Rp^2	Opening	Closing	Rm	Rm^2
2008	24.46	33.94	38.75	1502.11	890.48	1186.23	33.21	1103.06
2009	33.98	50.13	47.52	2258.9	1188.78	1655.74	39.28	1542.96
2010	50.86	81.34	59.92	3591.51	1655.28	2656.52	60.48	3658.75
2011	82.13	41.89	–49	2401	2,664.67	1,156.59	-56.59	3203.03
2012	42.85	46.52	8.6	73.96	1,163.67	1,298.64	11.6	134.52
Total			105.8	9827.48			88	9642.337
Arp	21.158		SDRp	38.95		Beta	0.96	
Arm	17.6		SDRm	40.23				
			Sharpe	0.427		Treyner	17.33	

Source: Secondary data

Note: Rp Fund Return (Portfolio Return)
Rm Index Return (Market Return)
ARp Average fund return
Arm Average Index return
SDRp Standard deviation of Fund Return
SDRm Standard deviation of Index return

Chart 1: **Comparison of Birla Frontline equity fund with market indicators (BSE200.)**



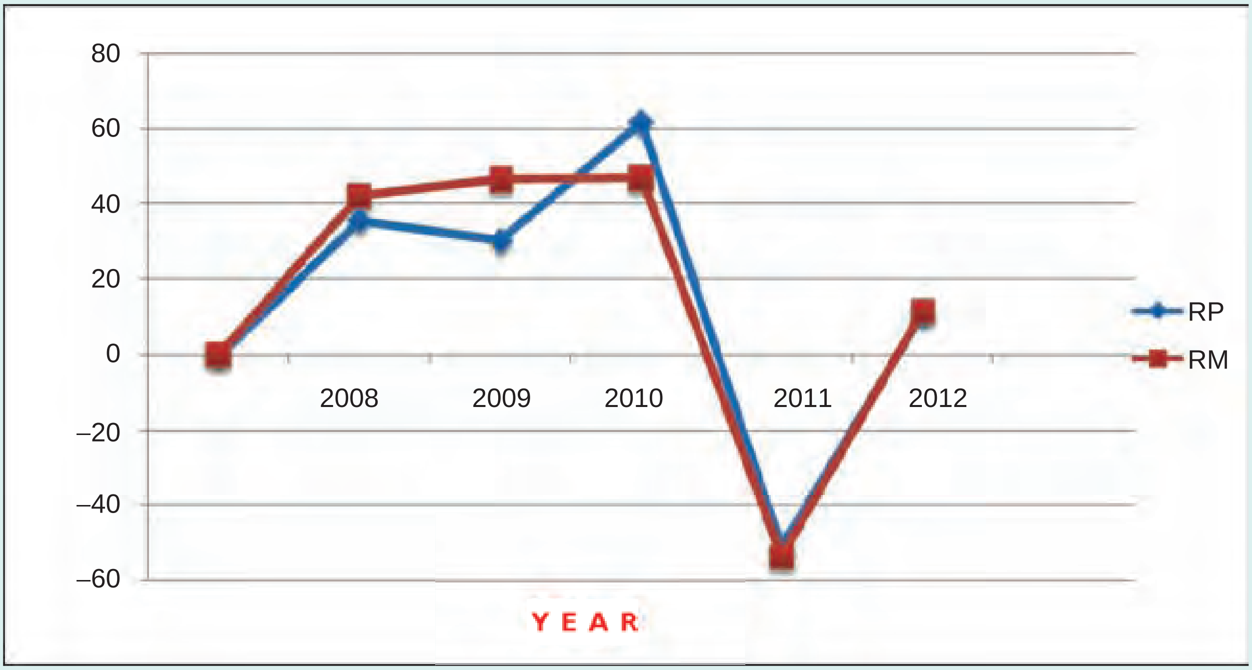
The fund has performed fairly well the return of the fund is greater for the period 2008, 2009 and 2010. In 2011 fund return and market index return is negative due to financial crisis. In 2012 it has increased by 8.6 & hence is in a positive zone. The average return of the fund is satisfactory. The *Beta* of this scheme is 0.96, which shows that it is less volatile and it is lesser risks when compared to the benchmark index. standard deviation was at 38.95 very much comparable to that of the benchmark at 40.23.

Table 2: Showing comparison of CANARA EQUITY FUND with Market Indicators (SENSEX)

	NAV				BSE200			
Year	Opening	Closing	Rp	Rp^2	Opening	Closing	Rm	Rm^2
2008	17.24	23.35	35.4	1253.16	6626.49	9397.93	41.82365	1749.218
2009	23.57	30.67	30.1	906.01	9422.49	13786.91	46.31918	2145.466
2010	31.04	50.12	61.5	3782.25	13827.77	20286.99	46.71194	2182.006
2011	50.54	24.64	-51.2	2621.44	20,325.27	9,647.31	–53.535	2866
2012	25.19	27.96	11	121	9,720.55	10,868.11	11.8	139.36
Total			86.8	8683.86			93.1197	9082.5
Arp	17.36		SDRp	37.88		Beta	0.952	
Arm	18.6239		SDRm	38.335				
			Sharpe	0.34		Treyner	13.5	

Source: Secondary data

Table 2: Showing comparison of CANARA EQUITY FUND with Market Indicators (SENSEX)



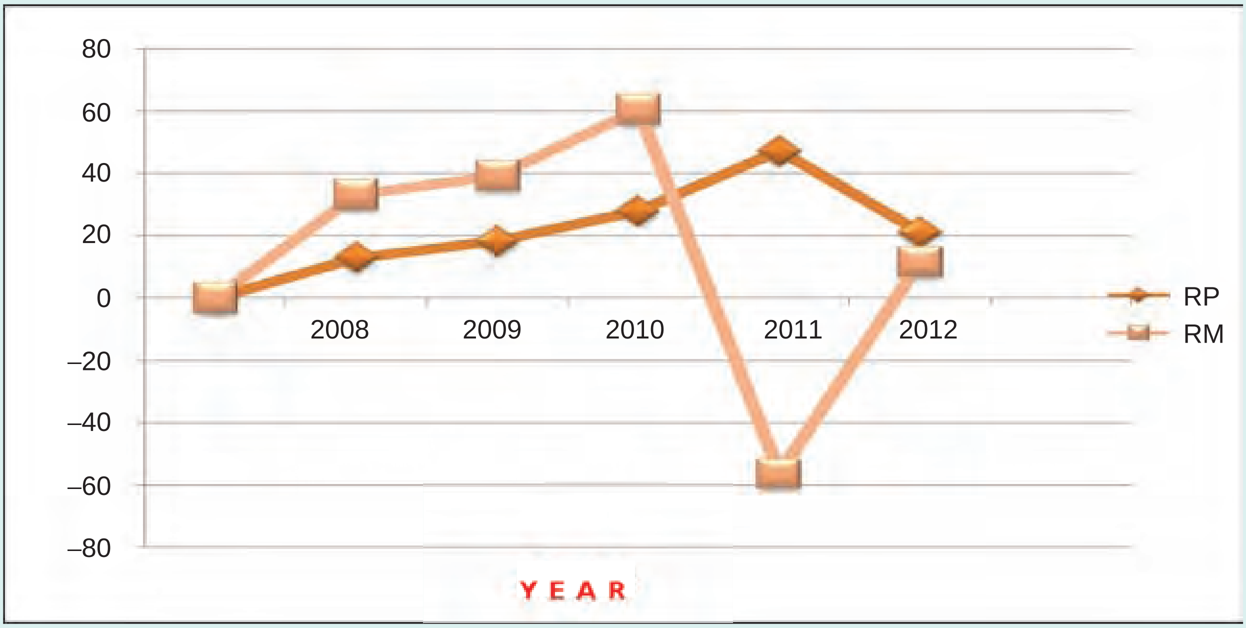
From the above graph and table it can be inferred that the fund returns are lower for the year 2008 & up to mid2009 than the Index returns. In the year 2010 the index return is greater than the fund return and in 2011 both the fund return and index return are falling at the same stage. The return of the fund has drastically comedown in the year 2011 due to melt down in stock markets. On 20th April, 2012 the fund return has increased to 11. The benchmark for this scheme is sensex. The return of the fund is low as compared to the respective benchmark index. The average return of the fund is17.36 as compared to the benchmark index of 18.6239. The beta of the fund is 0.952 which indicates that it is less volatile and it has lower risks than compared to the benchmark index.

Table 3: Presents Comparison of SBI magnum equity fund with market indicators (BSE 200)

	NAV				BSE200			
Year	Opening	Closing	Rp	Rp^2	Opening	Closing	Rm	Rm^2
2008	12.954	18.234	40.8	1664.64	890.48	1186.23	33.21242	1103.065
2009	18.193	27.58	51.6	2662.56	1188.78	1655.74	39.28061	1542.966
2010	27.87	47.24	69.5	4830.25	1655.28	2656.52	60.48765	3658.756
2011	47.22	20.65	-56.3	3169.7	2,664.67	1,156.59	–56.59	3203.03
2012	21.08	23.37	10.9	118.81	1,163.67	1,298.64	11.6	134.52
Total			116.5	12445.96			88	9642.337
Arp	23.3		SDRp	44.11		Beta	1.12	
Arm	17.6		SDRm	40.23				
			Sharpe	0.42		Treyner	16.78	

Source : Secondary data

Graph 3: Comparison of SBI magnum equity fund with market indicators (BSE 200)



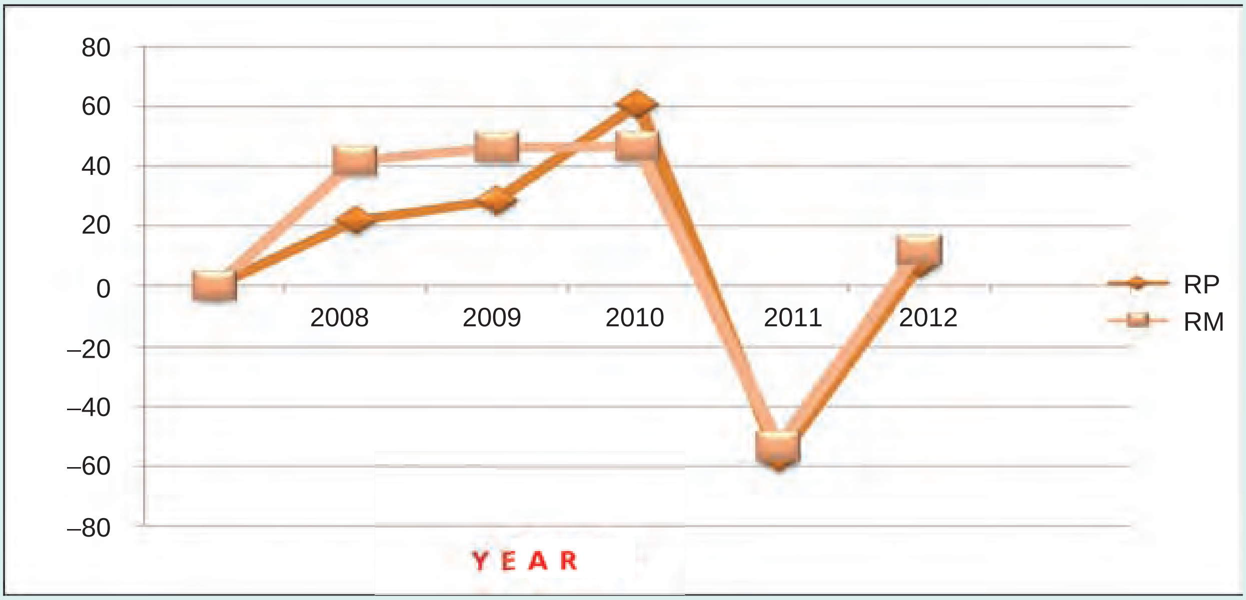
From the above graph and table it is found that the fund returns is higher for the year 2008, 2009, 2010 than the Index returns. And in the year 2011 both the fund return and index return has come down. The return of the fund is very high as compared to the respective benchmark index. The average return of the fund is 23.30 as compared to the benchmark index of 17.60 The return of the fund has drastically came down in the year 2011 due to melt down stock markets. On 20th, April, 2012. The fund return has been increase to 10.9. The beta of the fund is 1.12 which suggests that it is very volatile and it has greater risks than compared to the benchmark index. The average return of the fund is also satisfactory. The standard deviation of fund return is comparable to the that of Bench mark return.

Table 4: Comparison of LIC equity fund with market indicators (SENSEX)

	NAV				BSE200			
Year	Opening	Closing	Rp	Rp^2	Opening	Closing	Rm	Rm^2
2008	13.586	16.532	21.7	470.9	6626.49	9397.93	41.82365	1749.218
2009	16.551	21.269	28.5	812.25	9422.49	13786.91	46.31918	2145.466
2010	21.597	34.705	60.7	3684.5	13827.77	20286.99	46.71194	2182.006
2011	34.844	14.83	-57.4	3294.76	20,325.27	9,647.31	–53.535	2866
2012	15.16	16.288	7.4	54.76	9,720.55	10,868.11	11.8	139.36
Total			60.9	8317.17			93.1197	9082.5
Arp	12.18		SDRp	38.92		Beta	0.96	
Arm	18.6239		SDRm	38.335				
			Sharpe	0.19		Treyner	8	

Source : Secondary data

Graph 4: Comparison of LIC equity fund with market indicators (SENSEX)

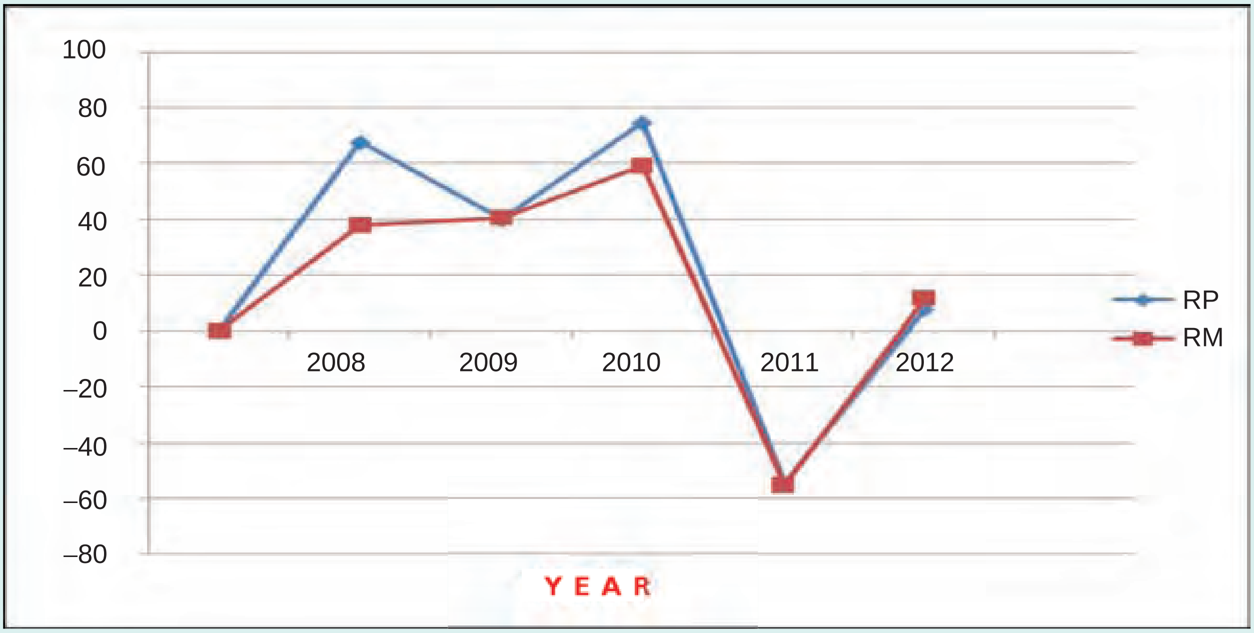


The fund has underperformed compared to the benchmark returns in the Year 2008 and In mid 2009, 2010 and 2011 it has outperformed the benchmark returns. The benchmark index for this scheme is the SENSEX. The return of the fund is very low as compared to the respective benchmark index. The average return of the fund is 12.18 as compared to the benchmark index of 18.62. The return of the fund has drastically came down in the year 2011 due to melt down in stock markets. On 20th, April, 2012. The fund return has been increase to 7.4. From the above return variations it can be inferred that this fund is considered as an inconsistent performer. The beta is 0.96, which indicates that it is less volatile as compared to the benchmark index

Table 5: Comparison of Reliance Growth with Market Indicators (BSE 100)

	NAV				BSE200			
Year	Opening	Closing	Rp	Rp^2	Opening	Closing	Rm	Rm^2
2008	112.86	189.18	67.6236	4572.95	3593.58	4953.28	37.83692	1431.633
2009	190.78	266.74	39.8155	1585.27	4964.64	6982.56	40.64585	1652.085
2010	270.05	471.73	74.6825	5577.47	6999.7	11154.28	59.35369	3522.86
2011	476.85	216.5	–54.6	2981.16	11,186.45	4,988.04	–55.4	3069.16
2012	220.86	237.86	7.6	57.76	5,021.58	5,603.74	11.6	134.56
Total			135.12	14774.61			94.03646	9810.298
Arp	27.04		SDRp	47.16		Beta	1.14	
Arm	18.8		SDRm	40.1				
			Sharpe	0.47		Treyner	19.76	

Graph 5: Comparison of Reliance Growth fund with market indicators (BSE 100)



From the table and graph it indicates that fund return and index return is fair for the period 2009, 2010 and both the fund and index return are falling at lower rate in the year 2011 due to melt down in stock market. On 20th, April, 2012 it has increased by 7.6 and index return and also fund return has increased to a positive zone. The Bench Mark index for this scheme is BSE100. The beta of the fund 1.15 suggests that it is very volatile and it has greater risks when compared to the benchmark index. The standard deviation of fund return is very much comparable to that of bench mark return.

Findings Of The Study

1. All Equity schemes have shown better returns than their respective benchmark index.
2. The beta of the funds suggest that they are highly volatile when it is compared to their respective benchmark indexes.
3. SBI magnum equity fund managed efficiently showing better performance in different holding periods, compared to market portfolios.
4. All funds returns has increased on 20th, April, 2009 due to stock market movement.
5. RELIANCE Equity fund is ranked First based on NAV returns.

Conclusion

After a slew of low-valued deals after the Lehman crisis, the domestic mutual fund (MF) industry is once again seeing deals at good valuations. Despite short-term hiccups, untapped opportunity in asset management business in India is attracting foreign players who are betting on the long-term potential. Growth schemes or equity schemes of mutual funds primarily invest in the stock markets. It will be important to mention here that stock markets give stable proceeds over the long term preferably if the money stays invested for five years or more and this is reflected in growth schemes. If we suppose that we are going to create astonishing returns in just a shorter duration of investing then we are going to be disillusioned. Saving money is not enough. Each of us also need to invest the savings intelligently in order to have enough money available for funding the higher education of one's children, for buying a house, or for one's own golden years. In case a person always intended to invest in the stock market but never had the time, patience and knowledge for doing the research and analysis part then these types of mutual funds are the ones for you. MFs as financial investment products have very less penetration, a strong distribution channel is the biggest factor for high valuations. The biggest advantage of the Mutual Funds is the diversified investment and transparency in the operation of the Asset management Company. From the analysis of equity schemes with their respective benchmark index it is known that Reliance Growth is the best scheme with high NAV returns followed by SBI magnum equity fund, and Birla Frontline equity fund.

Suggestions

1. The Mutual Fund companies can utilize this opportunity of soft interest regime followed by the banks and attract the fixed deposit and the savings Bank Account Investors.
2. The Mutual Fund Asset Management companies need to Educate and create Awareness about the concept of Mutual Funds to the investors, as majority of the investors do not know what a Mutual Fund is & it should highlight the benefits of mutual fund over other investments and attract more number of customers.
3. Asset Management companies can come up with more advertisements and promotional measures and it should also target the FII's and individual investors who invest in the capital markets.
4. The fund can state always the objective of each fund floated by the Asset Management Company to the investors so that the right investors can choose the right fund.
5. The risk management systems and the benchmarking of indices can be improved by AMFI (Association of Mutual Funds in India) to give the investors more guidelines and tools to take a good investment decision.

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Impact of Vertical Merger and Acquisition on Working Capital Condition of Some Selected Enterprises

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INTRODUCTION

Merger and Acquisition, by which two companies are combined to achieve certain strategic and business objectives, are transactions of great significance not only to the companies themselves but also to all other stakeholders, like employees, competitors, communities and the economy. The three main type of mergers are like (a) Horizontal Merger (b) Conglomerate Merger, and (c) Vertical Merger which refers to a firm acquiring a supplier or distributor of one or more of its goods and services. There are different motives behind a merger or acquisition like-gaining market share, product and geographic diversification, risk reduction, tax advantage etc. There are many works that have been done by different persons in this merger and acquisition area but the working capital issue have been ignored in most of the cases. The present study seeks to analyse the impact of vertical merger or acquisition procedure on working capital condition of the combined or acquiring company. This paper mainly focuses on whether the working capital position changes after vertical merger and or it remains intact after the vertical merger. This study only concentrated on the vertical nature of merger as the companies in this merger have supplier or customer relationship, so the effect on working capital can be shown better through this.

Objectives Of The Study

- To measure if there is any changes occurred in overall working capital condition due to vertical merger of the companies or it remained unchanged before and after merger.
- To compare the liquidity position before and after vertical merger, whether there is any huge change in the working capital position of the companies as an effect of merger and acquisition.
- To measure the extent of relation between the net working capital of the acquiring company before and after merger.
- To demonstrate whether there is any adverse effect on the working capital condition of the company or not due to vertical merger and acquisition.

Methodology Of The Study

Here we choose three case studies on vertical merger and acquisition of Indian companies as well as foreign companies and mainly the net working capital values are considered here. The chosen case studies of vertical merger are (a) Merger of Reliance Petroleum with Reliance industries Ltd. (b) Merger of APPLE with INTEL (c) Merger of Reliance Natural Resources Ltd. with Reliance Power Ltd. Firstly (i) here in this study the **working capital condition** is projected before and after merger and for that several ratios are used like-**current ratio (current asset/current liability), Liquid ratio (current asset-inventory/current liability-bank overdraft), Net Working Capital to Total Asset ratio, Net working capital to Net Worth ratio (Net Worth = share capital + reserve-misc.exp.), Current Liabilities to Total Debt ratio, Current Asset to total Asset ratio.** (ii) then a **test of synergic effect** has done in this study by comparing total value of net working capital of both the companies before merger and the merged and acquirer company after merger and acquisition. These above two cases [i.e. (i) and (ii)] are analysed on the basis of secondary data(balance sheet) of the companies like-RIL [2006 (Before Merger), 2010 (After Merger], Reliance Petroleum [2006 (before merger)], APPLE [2005 (Before Merger)], INTEL [2005 (Before Merger), 2006 (After Merger)], Reliance power [2009 (Before Merger), 2011 (After Merger)]. (iii) (a) The next analysis is done by using **simple correlation analysis** which indicates the extent of relation between the net working capital of the acquiring and merged company before and after merger and acquisition by taking the net working capital value of three years before merger and acquisition(x) and three years after merger or acquisition (y). The formula used is **r = Cov(x,y)/s(x). s(y)**, where r = correlation coefficient, s = standard deviation. (b) The final analysis is done by Hypothesis test to observe that whether there is any effect of vertical merger or not i.e. whether the working capital remains intact after merger and acquisition or not. Here three merged and acquirer companies (RIL, INTEL, RPL) are chosen as a sample and three years before and after merger working capital value is used as data like-RIL [2005, 2006, 2007 (before merger) and 2009, 2010, 2011 (after merger)], INTEL [2003, 2004, 2005 (before merger) and 2006, 2007, 2008 (after merger)] and RPL [2007, 2008, 2009 (before merger) and 2010, 2011, 2012 (after merger)]. Here the Paired "t" test is used as it is on the basis of small sample data and the data sources are related to each other. where, μ(x) = net working capital values of merged and acquiring company for three years before merger and acquisition, μ(y) = net working capital values of merged and acquirer company for three years after merger and acquisition.

Analysis of Data

Working Capital Condition Analysis

Here we can see that in the the first case i.e.as per table (i) current ratio and liquid ratio of RPL is very high and it is because of very low amount of current liabilities which can be a reason behind this merger and the current ratio of RIL before merger (1.4935) is lower than the current ratio of RIL after Merger (1.5435) which either due to higher current asset or lower current liabilities and it is a positive effect of vertical integration. Liquid ratio, net working capital to total asset ratio and net working capital to net-worth ratio of RIL before and after merger is almost same which a positive sign is also. The current liability to total debt ratio of RIL is decreasing after merger and current to total asset is increasing after merger both of which can be said as positive effect of merger as it indicates the decrease in current liabilities and increase in current asset respectively. Then in case of 2nd case as per table (ii) it can be seen that there are adverse effects on the different ratios of Reliance Power Ltd. after merger. The current ratio, liquid ratio is reduced abruptly. But the other ratios are almost same. There is no such large change in the ratios. It indicates that though the merger hampers the liquidity position of the company to some extent but the working capital condition remains more or less same. Now as per the last case study in the table (iii), it can be said that all the ratios remain more or less same and there is no such abnormal change in the ratios due to the merger.

(I) Merger of Reliance Industries Ltd With Reliance Petroleum Ltd:

RATIO	RPL(before merger)	RIL(before merger)	RIL(after merger)
Current Ratio	76.73	1.4935	1.5435
Liquid Ratio	76.73	0.8785	0.8759
Net Working Capital to Total Asset Ratio	0.1412	0.0872	0.0875
Net Working Capital to Net Worth Ratio	0.1415	0.1630	0.1601
Current Liabilities to Total Debt Ratio	0.00186	0.1767	0.1610
Current Asset to Total Asset Ratio	0.1431	0.2485	0.2640

(ii) Merger of Reliance Natural Resources Ltd And Reliance Power Ltd.

RATIO	RNRL (before merger)	RPL (before merger)	RPL (after merger)
Current Ratio	14.29	167.36	74.44
Liquid Ratio	14.29	167.36	74.44
Net Working Capital to Total Asset Ratio	0.2914	0.5349	0.4968
Net Working Capital to Net Worth Ratio	0.5498	0.1000	0.5491
Current Liabilities to Total Debt Ratio	0.0224	0.0032	0.0068
Current Asset to Total Asset Ratio	0.3134	0.5381	0.5035

(iii) Merger of APPLE With INTEL

RATIO	APPLE (before merger)	INTEL (before merger)	INTEL (after merger)
Current Ratio	2.9540	2.2950	2.1470
Liquid Ratio	2.9065	1.9570	1.6404
Net Working Capital to Total Asset Ratio	0.5916	0.2475	0.2252
Net Working Capital to Net Worth Ratio	0.9172	0.3306	0.2657
Current Liabilities to Total Debt Ratio	0.3038	0.1911	0.1760
Current Asset to Total Asset Ratio	0.8944	0.4387	0.3799

SYNERGY TEST: We know that Positive synergic effect means if the total value of two companies before merger is less than the value of the company after merger. Here synergic effect is measured on the basis of Net working capital value of the companies before and after merger. In the table (iv) we can see that the value of total net working capital of RIL and RPL before merger (Rs.8565.27crores) is less than the value of net working capital of RIL after merger (i.e. Rs.21964.27 crores). It indicates that there is a Positive synergic effect (i.e. Rs. 21964.27 crores-8565.27crores=Rs.13399 crores).But in case of Apple Computer Inc. and Intel merger in table (v) there is a negative synergic effect (i.e. $ 18773-$9766=$9007). Again in case of Reliance Power Ltd. and Reliance Natural Resources Ltd. in table (vi) there is a positive synergic effect of Rs.134064.27 lakhs.

(iv) (Rs. In crores)

Reliance Industries Ltd and Reliance Petroleum Ltd				
RIL(before merger-2006)	RPL (before merger-2006)	Total value (before merger)	RIL (after merger-2010)	Changes after merger
445.3	8119.97	8565.27	21964.27	13399

(v) (in$)

APPLE COMPUTER INC. AND INTEL MERGER				
APPLE(Before merger-2005)	INTEL (before merger-2005)	Total value (before merger)	INTEL (after merger-2006)	Changes after merger
6813	11960	18773	9766	(9007)

(vi) (Rs.in lakhs)

RELIANCE POWER LTD AND RELIANCE NATURAL RESOURCES LTD				
RPL (before merger-2009)	RNRL (before merger-2009)	Total value (before merger)	RPL (after merger-2011)	Changes after merger
737765.57	989.77	738755.34	872819.61	134064.27

Correlation Analysis

Here it can be seen that there is a positive correlation exists between the net working capital of Acquirer Company before and after merger. So it indicates that the trend of increase in working capital remains positively related with the trend of change in working capital after merger of acquiring company. So there are no such abnormal changes in the value of working capital due to such merger. It is highest in case of Reliance Power and RNRL Merger (0.8039) and lowest in case of APPLE and INTEL Merger (0.1112).

RIL and RPL Merger	0.4054
APPLE and INTEL Merger	0.1112
RELIANCE POWER and RNRL Merger	0.8039

Hypothesis Test:

NULL HYPOTHESIS: Null hypothesis is that there is no change in net working capital condition due to merger i.e. net working capital condition remains same of the acquirer company before and after merger. i.e. $\mu(x)=\mu(y)$.

Alternative Hypothesis

Alternative hypothesis is that there is a change in the net working capital condition of the acquirer company after merger. i.e. $\mu(x)\neq\mu(y)$.

RIL and RPL Merger	Calculated value of "t" = 3.125	Tabulated value of "t"= $t(0.05,2) = 2.920$ $t(0.01,2) = 6.965$	Null hypothesis is accepted (based on 1% significance level)
APPLE and INTEL Merger	Calculated value of "t" = 1.1551	Tabulated value of "t"= $t(0.05,2) = 2.920$ $t(0.01,2) = 6.965$	Null hypothesis is accepted
RELIANCE POWER and RNRL Merger	Calculated value of "t" = 1.3457	Tabulated value of "t" = $t\,(0.05,2) = 2.920$ $t\,(0.01,2) = 6.965$	Null hypothesis is accepted

Here, Hypothesis is used to focus on the fact that whether vertical merger has its effect on net working capital value of the new company after merger. i.e. the net working capital value remains intact. Here from the above tables it is been seen that in the first case (RIL AND RPL) the null hypothesis is accepted at 1 % significance level., though in 5% significance level the null hypothesis is rejected. But as 1% significance level is more accurate than 5% significance level, so null hypothesis is accepted. In both the other two cases (APPLE-INTEL and RPL-RNRL) the null hypothesis is accepted. So it is cleared from the hypothesis testing that the working capital position remains intact after vertical merger or acquisition.

FINDINGS

i. It is been seen that out of the three cases, in two cases (except Apple-Intel case) positive synergic effect after vertical merger or acquisition have been occurred. This indicates the positive sign of vertical integration on the net working capital condition of the company after merger as there is no adverse effect in the overall working capital due to vertical merger.

ii. The different ratios indicates that in each of the three cases of vertical merger doesn't show any abrupt change in the working capital position of the company after merger. It means the working capital condition as well as the liquidity position remains intact and maintained.

iii. Through correlation analysis, it can be observed that in each of the three cases the net working capital value of the merged or acquiring company before merger is positively correlated to the net working capital of the company after vertical merger. So it can be said that as it is positively correlated in each case that means the working capital values before merger of merged or Acquirer Company is related to some extent to the working capital values of that company after merger or acquisition. Though it is not perfectly correlated but still it indicates a positive impact of vertical merger i.e. there is no abrupt changes in the working capital value due to vertical merger i.e. there is no adverse effect on overall working capital due to vertical merger.

iv. It can be said that though it is proved through hypothesis test that there is no negative change in the overall working capital value i.e. working capital remains intact that is the objective of our study. But it can't be ignored that there may be some positive or negative change in the current assets and liabilities individually. So for that reason a statement is prepared to show the effect on current assets and current liabilities individually.

v. (a) RIL and RPL Merger(in crores)

Items	Before Merger(RIL)	After Merger(RIL)	Change	Effect
Sundry Debtors	4163.62	11660.21	7496.59(Increase)	Adverse
Inventory	10119.82	26981.62	10861.80(Increase)	Positive
Current Liability	16454.48	40414.83	23960.35(Increase)	Adverse

(b) APPLE and INTEL Merger(in $):-

Items	Before Merger(INTEL)	After Merger (INTEL)	Change	Effect
Sundry Debtors	3914	2709	1205(Decrease)	Positive
Inventory	3126	4314	1098(Decrease)	Positive
Current Liability	9234	8514	720(Decrease)	Positive

(c) RPL and RNRL Merger(in lakhs):-

Items	Before Merger(RPL)	After Merger(RPL)	Change	Effect
Sundry Debtors	Nil	1219.939	1219.939(Increase)	Adverse
Inventory	Nil	Nil	Nil	Nil
Current Liability	4434.67	11884.315	7449.645(Increase)	Adverse

These indicate that though the vertical merger and acquisition has its positive as well as negative effect on different current assets and current liabilities but it does not affect the overall value of net working capital.

CONCLUSION

Lastly on the basis of above study it can be concluded that due to vertical integration the overall net working capital position remains intact and moreover in most of the cases the effect on the current assets and liabilities individually are favourable. If the working condition remain sound without any adverse effect due to the vertical merger or acquisition then it will favorably affect the external investors, creditors and internal human resource of the company. It indirectly leads to sound liquidity position of the company which results into the positive impact on the efficiency as well as the profitability of the company. So working capital can also be considered as a driver or reason behind any vertical merger for not only the acquirer company but also the merging company. As it is seen that the merging company is also benefited from this type of merger. So it can be suggested that in case of future merger and acquisition the companies should not only consider the profitability aspect but they should also consider working capital impact as a driving factor behind merger and acquisition especially in case of vertical merger and acquisitions.

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Special Economic Zones In India—Boon Or Bane?

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I . INTRODUCTION:

Background: *A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws.*

As per Chapter 9, Para 30 of EXIM policy 2000 *"Specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs"*

China adopted SEZ model in 1980's, in India the first Export Processing Zone (EPZ) was set up in Kandla as early as 1965 later converted into SEZ along with other 7 EPZs in the year 2000.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime the Special Economic Zones Act, 2005, was passed by Parliament in May, 2005. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as State Governments. The SEZs were established in accordance with the Acts and rules based on the philosophy of unbalanced growth strategy of Hirschman in the lines of SEZs in China. An assessment of the functioning of these SEZs established with this background is felt necessary to come to a conclusion whether SEZs in India are a boon or bane.

Objectives of this study: An attempt has been made to assess the success or otherwise of the SEZs in India. The assessment is made in terms of achievement of the declared objectives of SEZs. As per the declared objectives, the SEZs are expected to work as: Engines of growth (ii) source for capital formation (iii) vehicle to create environment for investments and exports (iv) improve export competitiveness (v) facilitate foreign exchange earnings (vi) to create world-class infrastructure and (vii) to act through hassle free taxation laws and procedures.

Methodology: Keeping in view of the above objectives a study has been made on the functioning of the SEZs. This empirical study has been made with the practical experience of the author as SEZ developer and through interaction had with various stake-holders viz., SEZ developers, SEZ units, government officials, vendors, customers etc., by the author.

Plan of the paper: This paper is presented based on theoretical framework of working of SEZs, comprehensive analysis, China Vs India scenario, SWOT analysis and impact of recent global recession on SEZs.

II. PHILOSOPHY BEHIND SEZs

Theory of balanced Growth: Under the theory of balanced growth the real bottleneck in breaking the narrow market is seen in the shortage of capital, therefore, all potential sources have to be mobilized. If capital is available, investments will be made. However, in order to ensure the balanced growth, there is a need for investment planning by the governments. *(1.2.1 Theory of balanced growth, Nurkse 20)*

Theory of Unbalanced Growth: A situation in which economic growth is significantly faster in some segments of the economy than in others.

Contrary to the theory of balanced growth, the real bottleneck is not the shortage of capital, but lack of entrepreneurial abilities. Unbalanced growth theorists argue that sufficient resources cannot be mobilized by government to promote widespread, coordinated investments in all industries. *(1.2.2 Theory of unbalanced growth Hirschman 9)*

Unbalanced growth theorists share analysis with balanced growth theorists that free markets, alone, cannot generate development but differ in government planning or market intervention is required in strategic industries. A country lacks resources to finance balanced growth; resources are therefore concentrated on strategic industries with:

- Significant forward linkages i.e., firms creating essential inputs for other key firms in the economy

- Significant backward linkages i.e., key firms buy industrial inputs from a large number of domestic firms
- Import substitution, developing domestic industries replaces imports and so improves the balance of payments.
- Government identifies strategically important areas with significant backward and forward linkages to nationalize (planned economy) or subsidize (market economy).

Theory of unbalanced growth led to formation of SEZs to create forward and backward linkages.

To achieve this, both SEZ Developers and SEZ Units are given various direct and indirect tax benefits by both Central and State governments.

iii. Comparison of SEZs In India and China

The impact of Chinese SEZs in propelling China's export-led growth has been impressive, with the SEZs now account for 12% of the country's GDP.

India's experience with SEZs actually predates that of China. In 1965 the first Special Export Processing Zone was set up in Kandla in Gujarat state, seven more later began operations. The Indian SEZ model, however, has been far less successful than the Chinese model. The Indian zones have had difficulty in attracting foreign and domestic investors for a variety of reasons. An important difference has been the lack of a natural gateway that could serve as a source of capital and a conduit for the movement of goods in the manner that Hong Kong and Taiwan function for China.

Table I: India, China comparison

INDIA	CHINA
1. Almost 568 SEZs were given formal approval spread across all over the country	1. Only seven zones selected very big in size and specified areas.
2. SEZs were setup even in land locked areas based on developers convenient	2. These SEZs were setup near to costal areas making exports and imports easy
3. Stringent labour laws	3. Flexible labour laws providing contract appointment for a specific period
4. Inadequate infrastructure and infrastructure development handed over to private real estate developers	4. Government invested heavily in infrastructure development and modernization.
5. SEZs in India largely governed by SEZ Act, only local laws like VAT are in the hands of State Governments	5. Powers to provinces and local authorities to frame additional guidelines in administering the zones
6. Focus was more on service sector like IT and ITeS.	6. Focus was more on manufacturing sector

Source: News papers & Internet

iv. Strengths and Weaknesses of SEZs

Keeping in view of the objectives of SEZs an analysis has been made in terms of their strengths, weaknesses, opportunities and threats.

V. RECENT GLOBAL RECESSION AND ITS IMPACT ON SEZs.

In India Special Economic Zones are setup with the main objectives to generate additional economic activity,

Table II: SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis of SEZs in India

STRENGTHS	WEAKNESSES
• No License required for import	• Inadequate resettlement and rehabilitation policies and plans
• Manufacturing, trading or services activities allowed	• Inadequate employment opportunities for local people through SEZs leading to loss of livelihood
• Full freedom of subcontracting	• Increasing burden on natural resources and the environment and alienation of local communities from these resources
• No routine examination of export import cargo by customs authorities	• SEZs contributing to real estate boom and creating real estate zones leads deviation of the original intent of SEZs
• SEZ units to have positive net foreign exchange earner	• Potential revenue loss from heavy subsidizing in SEZs
• Financial incentives like tax holidays, duty free imports and exports	• Differences of opinion between central and state governments
• Single window clearance	• Bypassing local governments and ignoring local communities

• high quality infrastructure	• Increases regional disparities
• Strategic location and market access	• No confirm mechanism of establishing SEZs led to fear psychosis among villagers.
OPPORTUNITIES	THREATS
• Opportunity to rural masses to shift from agriculture to manufacturing & service sector reducing burden on the agriculture.	• Large scale and unjustified acquisition of land, fertile land is taken by SEZ reduces the cultivable land in the country
• Employment opportunity improves the morale & economic conditions of the poor landless farmer/ labour.	• Misuse of land for real estate purpose
• Increase awareness, competitiveness & Adaptability.	• Threat to water security
• Waste Land Utilization generates income to the government leading more investment in the area.	• Threat from China exports
• International Market comes at doorsteps.	• Over capacity
• Infrastructural support provides amicable solution to the problems of sustainable development.	• Small & Marginal Farmers may turn landless.
• Generation of economic activity reduce the possibility of family holding & employment in disguise.	• Source of livelihood may be snatched by corporate & capitalist
	• Immigration may alter the natural resource capital and spoil the cultural identity
	• WTO constraints
	• Conversion of agricultural labour into industrial labour

Source: News papers & Internet

promote export of goods and services, promote investment from domestic and foreign sources, create employment opportunities, develop infrastructure facilities and backward regions, attract Foreign Direct Investment (FDI), earn foreign exchange and contribute to exchange rate stability, single window clearance for setting up of a SEZ and an unit in SEZ , stimulate sectors such as electronics, information technology, create backward & forward linkages to increase the output and raise the standard of local enterprise that supply goods and services to the zone.

By establishing Special Economic Zones, we are trying to make India, a global manufacturing and out sourcing hub. In a country like India where the problem of unemployment is serious, SEZ is to create more employment in the country particularly to educated people. The Special Economic Zones policy, based on private sector financing and aimed at creating both industrial and social infrastructure is clearly an important step in this direction and deserves the incentives that are given to SEZ. But, at the same time this employment is expected to outweigh the large revenue losses and large scale displacement of farmers.

The recent global economic crisis has most certainly hit exports and foreign investment flows and will have affect on the prospects of SEZs. The lack of economic activity in most SEZs leads to the suspicion that many promoters were incapable of attracting economic production units to their SEZs in the first place, and were merely betting on them as real estate assets and relying on loopholes in the law to realize their value at a later date. As on 2nd June, 2009, formal approval was given to 568 SEZs whereas only 315 SEZs were notified as on the same date. Out of 568 formal approvals, majority of them (61%) are IT/ITES SEZs. With the outsourcing boom in western countries getting negative trend and Manila being strong competitive hub for outsourcing activities, IT/ITES SEZ units may not kick-off as expected. All in all, recent economic recession is likely to persist at least for the next two years, which will also create dent in FDI in manufacturing and IT/ITES services as well for export. It is very clear that there are too many SEZs, particularly for IT/ITES, without any business. Owing to economic slowdown and availability funds being tight in the capital market, one of the leading developers put on hold 12 SEZs in December 2008.

Since most of the SEZs are concentrated in few States for e.g. Andhra Pradesh and Maharashtra having maximum number of SEZs. The unhealthy competition among other States led to mushrooming of SEZ development units and turned into uproar by community with lot of discontent and violence against land acquisition, compensation packages for displaced farmers, changes in rehabilitation, resettlement etc..

With so many complications involved, will this SEZ concept finally achieve the intent with which they have started in India? If so, to what extent? What kind of a development goal this will achieve or will it pass on more wealth into private hands? Is the administration prepared for the huge backlash of discontent, protest and social upheaval that oppression on such large scale could trigger like the recent Nandigram (West Bengal) and Raigad (Maharastra)?

These questions are not going to be easy to answer rather a real challenge to make the SEZ concept successful.

The controversies against SEZ started where Ministry of Finance feels that tax rebate and tax incentives would result in huge losses from direct and indirect taxes. According to sources the country would be losing Rs.1, 60,000 Crores on account of SEZ granted tax rebate by 2010, which is not a small amount. On the other hand Ministry of Commerce and Industry, is canvassing for SEZ, in order to make our industries more competitive in the global economy. This is creating discrimination between units within the same locality one being Non-SEZ area the other next to it in SEZ area. At this time of high fiscal deficit of the country is rising (Rs.3, 32,535 Crores budgeted fiscal deficit in the union budget 2009-10) is it justified that offering tax concession to SEZ units?

Another factor is the way in which SEZs are structured and designed in India. The Indian variants tend to be smaller than their Chinese equivalents, sector focused (in such sectors as handicrafts, leather products, auto parts, apparel, electronics and IT services, gems and jewelry, food processing) and separated from their surrounding communities. Chinese SEZs are large, multi-sector and no longer have formal boundaries separating them from surrounding communities. These points up another difference between the Chinese and Indian approaches: in China the SEZs have been used to test reforms that have subsequently been adopted nationwide, with the result that today there is very little difference in policies within the SEZs and the general economy. In India, on the other hand, reform generally has moved ahead much slower and the SEZs have not been seen as the leading edge of reforms.

The 100% Export Oriented Units (EOUs) are finding it tough with the advent of the SEZ Act, as SEZs enjoy more benefits than EOUs , resulting in an uneven level playing field when the overarching objective of both remains to achieve higher export growth.

The recent slow down in the economy due to recession almost a million people lost their jobs particularly in IT, ITES, Textile, Jewels industries. As per Ministry of Commerce and Industry, Department of Industrial Policy & Promotion, FDI Equity inflows during the calendar year 2009 (January 2009 to March 2009) declined 48% in dollar terms when compared to the corresponding period of year 2008. Recent economic survey 2008-09 released by the Government of India reveals that growth in exports during fiscal year2008-09 is marginally up by 3.6% as against 28.90% increase during 2007-09. Though the exports from SEZ grew by 50% during fiscal year 2008-09 the rate growth is significantly low against 92% in the year 2007-08. The government is looking into formulating new rules for de-notification of Special Economic Zones in the wake of several developers including some of the realty majors approached Commerce ministry to surrender their tax-free zones. In the light of the objectives mentioned above, it is the time to consolidate the position of Special Economic Zones.

VI. EPILOGUE:

The choice of place for setting up SEZs in India is not fully supported by the economic factors envisaged by Hirschman. Thereby weaknesses listed above made the SEZs non-constructive in many places. Due to the recent global recession and slow down in the economy IT, ITES and BFSI focused BPO SEZs become defunct. Hence, it can be concluded that SEZs in India are not fully successful in achieving their objectives for which they were established and the cost of establishing the SEZs in terms of social cost is very high.

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The Talk of the Town : CRR!

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CRR which stands for ***Cash Reserve Ratio*** has been widely in news for quite few months now. A single week has not passed without business columns bandying much about CRR. Therefore, understanding of CRR is of great relevance in todays' times.

What is CRR?

Reserve Bank of India (RBI), the apex bank in India has prescribed guidelines to every commercial bank to maintain a certain amount as "minimum cash reserves". These cash reserves are maintained in the form of 'deposits' which is referred to as CRR. Therefore CRR essentially represents liquid cash.

Why CRR?

We just said that CRR is a prescription mandated by RBI. RBI uses it as a "tool" to manage money supply. To elucidate, holding more deposits reduces the ability to lend for a commercial bank, and in turn decreases money supply. Similarly, maintenance of lower deposits releases that much cash, enabling commercial banks to lend to that extent, thereby, increasing money supply. Now, we all know that money supply and inflation are interconnected. Therefore, CRR is a useful "monetary" tool to contain inflation, as well as to boost circulation of money.

Trends

Since RBI was established in 1935, the CRR has been admeasured. The first CRR was issued in July 1935, and since then the rate has changed many many times. For example, as of 31st August 2012, the rate is 4.75% which has not changed since 16th March 2012. It is worth noting that CRR has peaked as high as 15% and has remained as low as 3%.

What is the international scenario?

Interestingly, many central banks of the developed nations have dispensed with the system of CRR and have been using the tool of 'Open Market Operations' (OMO), which essentially is buying and selling government bonds in open market, to control inflation. UK, Canada, Sweden, Australia and New Zealand have zero reserve requirements. USA on the other hand has a graded system of reserve requirements depending upon the size of the bank and surprisingly, Federal Reserve pays interest on the reserve balances maintained with it! No wonder why Indian commercial banks are clamouring for the interest!

Why in News so much?

The recent spate of proclamations between the Chairman of SBI and Deputy Governor of RBI has interestingly led to so much noise. The Chairman of State Bank of India recently quipped that CRR can be abolished or phased out gradually. His observation reeled on the fact that commercial banks do not earn any interest on the huge deposits maintained with RBI in the form of CRR. However, this statement of purpose has created interesting and interrogating debates with the RBI. RBI on the other hand continues to insist that banks have to function within a regulatory system, and asserted that it is only the regulator which has the power to decide!

Is this really new News!

This is no new found chagrin. CRR has been a bone of contention between RBI and Commercial banks for long due to the magnitude of the CRR balances. To indicate the mammothness of the size, on an average in recent few months, the total deposit maintained by the commercial banks was as high as circa 315,000 crores with RBI on a given day. Imagine what such non-interest bearing deposits can have an impact on the profitability of the banks! No wonder, why there is dissonance!

As said, this row has been a long saga, dating back as early as the 1970s. On the interest, it is particularly worth noting that the interest on CRR had gone up as high as 10.5% in 1990s from 5% in late 1970s. Astoundingly, the amendment to the RBI Act in 2007, removed the interest on CRR completely. Since then this battle has swelled!

To sum up:

If it is not a new issue, why should there be qualms now on quantum of CRR or the quest of interest, given that the banking fraternity is fully cognizant of the objective of this monetary tool, which was always to use it to try and contain inflation.

In summary, rather than being a critic, time has come to give a serious thought on efficacy of CRR to curb inflation or boost money supply. More importantly, time has come for greater focus on other avenues which include Open Market Operations (OMO), favourable fiscal policies, implementing long due Goods and Service Tax (GST) which will help contain government finances, and similar measures to combat inflation and control money supply.

Emerging Private Equity Industry in India: Four promising sectors viz. Power, SEZ, Healthcare, IT & ITES

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Introduction

The article aims to bring out key aspects of PE sector in India vis-a-vis Global PE industry. Also, it tries to focus on infrastructure sectors like Energy, Education, Real Estate, Airports, Roads, SEZ, wherein we try to probe into the drivers and restraining factors for these sectors and its future outlook.

Indian PE vis a vis Global PE

In global context, PEs tends to take significant controlling / majority stake and Indian PE investors tend to take minority stake. Global PE Industry is evolved whereas Indian PE Industry is evolving w.r.t. complete system i.e. investing and services provided like Tax, I-Banking, Advisory for investment. Indian PE Industry works for funding / providing growth for expansion related capital as against Western PE industry which provides capital for mature industries. Indian PE is underleveraged/ has limited leverage in usage as against Western PE Industry which has leveraged buyouts as common process. In India, shareholders are more apprehensive to give control.

Development of PE in India:

With a total of 751 completed deals from 2003 till 2011, India noticed 174 deals with average deal size of USD 47.91 Billion in 2011, which was quite large over last few years showing an increasing trend in PE deals over. Also, total deal value more than doubled in 2010. Thus, we can see that the effect of recession is reducing, but in present uncertain scenario, PEs are facing the crunch of Indian market going down, Europe's Sovereign debt crisis and US slowdown. As a result of which, the PE deals still remained far below the boom years of 2007. **Figure 1** shows the top 25 deal sizes (1). It shows that 2010 noticed smaller sized deals w.r.t. 2009. But the deal size improved in 2011, since India witnessed a large sized deal, top 5 of which are shown in a table below.

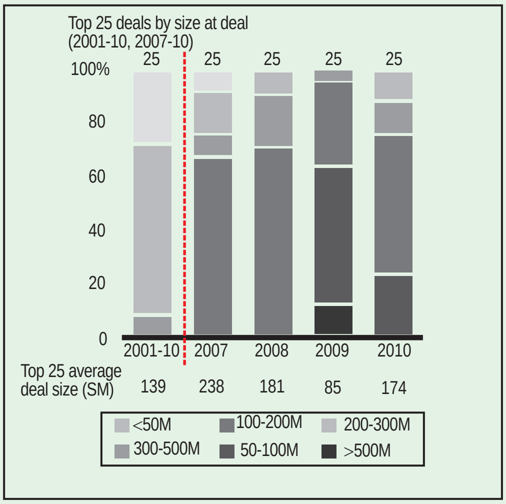


Figure 1 Deal Sizes in 2010 have recovered significantly w.r.t. those in 2009
Source: IVCA Bain India Private Equity Report 2011

Target Name	Acquirer Name	Seller Name	Announced Value (Million USD)
Operation Contracts in 21 Oil and Gas Blocks India	BP PLC	Reliance Industries Ltd	323910
Siemens Ltd/India	Siemens AG		61771.08
Hero Investments Pvt Ltd	Multiple acquirers		45000
Reliance Life Insurance Co Ltd/India	Nippon Life Insurance Co	Reliance Capital Ltd	30620
Vodafone Essar Ltd	Piramal Healthcare Ltd	Essar Teleholdings Ltd	28966.4

Table 1 Top 5 PE Deals—India (2011)
Source: Bloomberg Database

Growth Story India

India's growth potential:

- One of the fastest growing economies in the world, projected to grow at 8% p.a. until 2020
- ***India*** would clearly be the ***third largest economy*** in the ***world*** by **2050**
- Favourable consumption patterns, demographics, policy decisions, regulatory undertakings and domestic consumption driven economy.

With biggest film industry, largest IT sourcing done, one of the biggest tea production, motorcycle manufacturer and diamond polishing market, India has a good growth prospects.

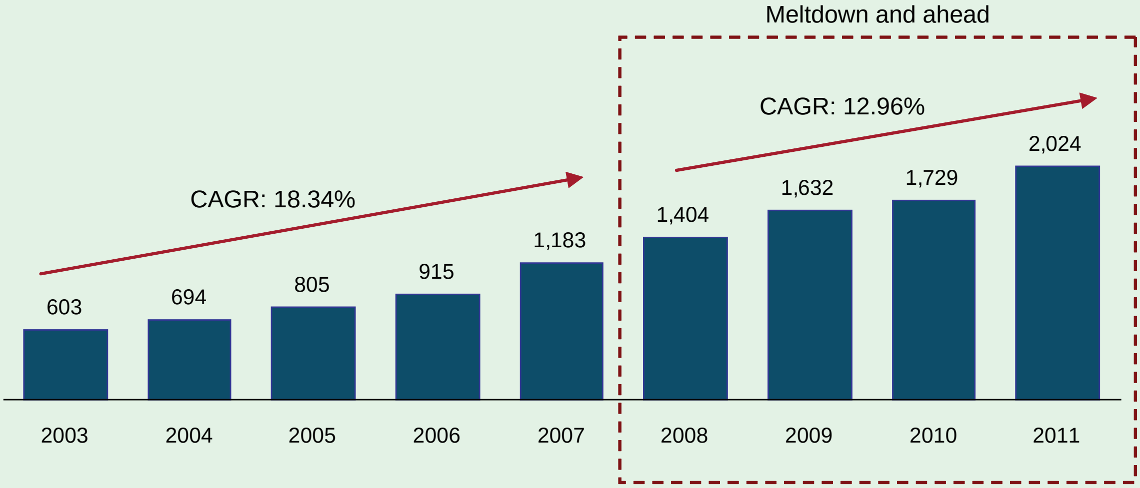


Chart 1 GDP Growth of India
Source: Goldman Sachs Economic Research, Exim Bank

In recent years, the GDP growth has been contracting, but with the favorable policy implementation and opening up of FDI's and easing out of regulations for FII, India is will be having good growth rate in the coming decade.

Growth drivers for India and Indian Business (for PE in few sectors):

Infrastructure Investment: Policy initiatives & Investment of USD 1 Trillion to attract investments in core infrastructure projects related to power, transportation, SEZ, Education, and other similar sectors.

Large Population: Large population in consumption range (20-45: 45%).

Favorable Investment related & Regulatory framework: Reforms in FDI, allowing FII to directly invest in stocks, Tax reforms, Companies Bill Amendments changing in favor of M&A deals, will help the PE investment to grow in India.

Globalization: KPO (Legal, Design Activities), BPO and IT/ITES Services & more numbers of cross border M&A gives India a global future outlook.

FII & FDI: A survey conducted by Bain in India PE Report 2011 (1), says that in coming 2 years, almost 80% of funds will be sourced through FII, FDI and Foreign VC investment.

Trends

Nearly one fourth of investment made in past 5 years is made in 2011 as said by a report by Venture Intelligence (USD 10.11 Billion of USD 47 Billion by volume and 362 to 441 by value). The Deal with entry type of buyout firms has doubled from 9 in 2010 to 17 in 2011. But the growth stage deals have reduced from 200 in 2010 to 149 in 2011. From past deals it has been observed that most of the buyouts have taken strategic sale as exit route.

Real Estate

	Number of deals	Volume (Billion USD)
2010	69	2.68
2011	63	1.585

Largest PE investment in property sector during 2011 was of Pune SEZ worth **USD 8092.75 Million** by Blackstone Group LP followed by worth **USD 320 million** of Jeff Morgan Capital invested in Film City project of Compact Disc India. (2)

In Real Estate space, largest deal in August 2011 was Bhartiya Samrudhi Finance having a deal size of USD 178 Million, followed by

Deal	Size (USD Million)
Bhartiya Samrudhi	178
Sagar Ratna (By Indian Equity Partners)	35
Caparo Energy India	33

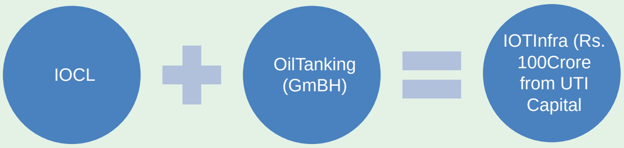
BFSI

BFSI sector saw 40% rise in investment valuing USD 209.3 Million in August 2011. The biggest one of the whole year being Reliance Life Insurance Co Ltd/India being acquired by Nippon Life Insurance Co., this was worth USD 30.62 Billion.[3]

Deals this year (2012)

Quick overview of two recent deals this year:

1. IOT (JV of IOCL and OilTanking, Germany), raised Rs. 100 Crore from UTI AMC's IIDF (India Infrastructure Development Fund). Due to market uncertainty, it decided to not to go through IPO route & use alternative means of funding its investment i.e. private equity which was next better option.[4]



2. GMR is almost ready to raise Rs 600 crore for its Bangalore based highway project which it won in October 2010 whose deal is expected to be signed in coming 3 weeks. The reason quoted by GMR to raise funds through PE, in spite of their own GMR Infrastructure fund, is to prepare each of their verticals to go public eventually.[5]

The various sectors in which PE's invest in India vary considerably and include the following: Real Estate, Engineering, Telecom, Healthcare, Media, hotels, resorts, retail, shipping, SEZ, Energy, etc.

The growth rate (sector wise) in decreasing order for 2009-11 (CAGR) is as under:

Sector	Return 2009–11 (CAGR) (%)
Energy	283
Mfg.	207
Banking Financial Services & Insurance	206
Telecom	164
Real Estate	130
Healthcare	115
Engineering & Construction	106
Others	48
IT/ITES	-6
Media & Entertainment	-46

Table 2 Sector wise returns in 2009-2011

Source: IVCA Bain India Private Equity Report 2011

One important thing to observe is that Energy is a potential growth sector, since the demand of coal is ever rising. IT and ITES had a hard hit, due to reduction of resources and lesser investment.

The investment is witnessing increasing diversification across industries w.r.t number of deals and value of deals. So, the others sector is seeing more investment and consists of hotels, resorts, shipping, logistics, textiles, education and other services.[1]

Since 2003, the Indian economy saw a real boost in the production and consumption levels. This led to new enterprises coming up. The environment was conducive for the entry of Private equity into India.

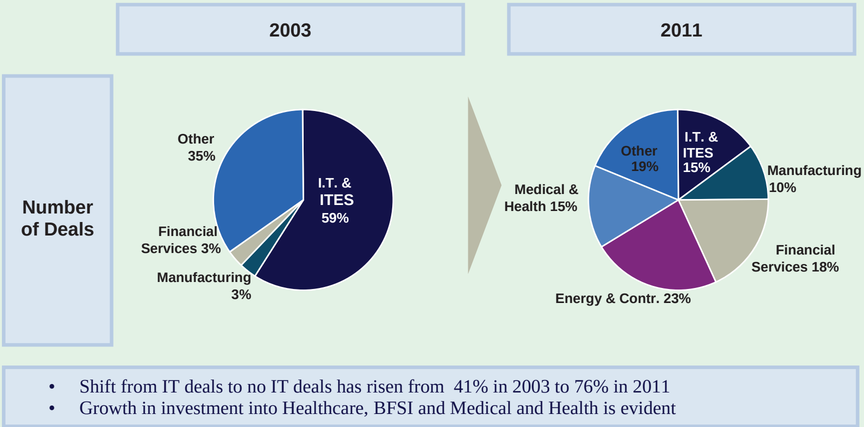


Figure 2 Sectoral Shift from IT & ITeS to other emerging sectors

Source: Bloomberg database

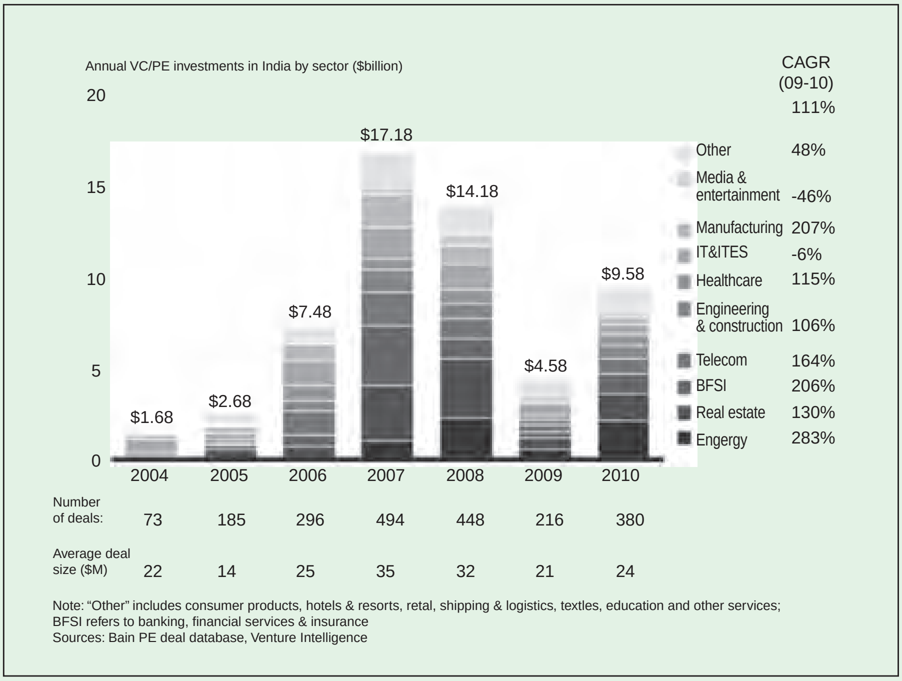


Figure 3 Deal making increased across all major sectors in 2010
Source: IVCA Bain India Private Equity Report 2011

It can be observed from the above graph that the number of deals that have occurred from 2003 to 2007 and early 2008 were on the increase. After this, there was a dip in the number of deals.

Post the 2008 financial crisis, there was a dip in the Indian GDP and the investors started looking at PE skeptically. There was also an immediate fall in the number of deals that were being done in the market. The gap in between the expectations of the PE funds and the firm promoters grew much by 2009. Hence the multiples that PEs paid dropped.

The global downturn brought the focus of the PE sector away from the developed markets to the developing market such as India.

After 2010, there was cautious optimism in the people and the industry was in a recovery mode. India saw the largest increase in the deal activity with the number of deals going up to 380. The energy sector has been attracting the largest amount of capital. However the number of deals did not yet reach the capacity that was witnessed in 2007.

Challenges

In future we can watch out for a better scope for the PE industry. For PE industry to grow into full maturity, most of the entrepreneurs must turn to PE as a source of capital. The expectations mismatch between the investors and the firm promoters must come closer.

In addition to this, the government has a very big role to play in this. Removing regulatory barriers can put domestic and international firms on the same level playing field. The post deal collaboration between the two main stakeholders should also be good. Both the sides should work towards achieving a common goal rather than trying to achieve two different goals.

Consistent improvements over the years on many fields such as FDI in single brand retail, life and general insurance etc. and strong economic environment are helping India become a favored destination for investments.

Post 2011, the sector will be lucrative but the competition will be intense.

Let us now take a case in each of any three sectors and study the opportunities and challenges facing them in the Indian context.

Power

There is a large demand supply gap in the power sector of India. The average All India energy shortfall is around 9% and the peak demand shortfall is about 14%.

The following reforms will help boost the growth in the segment. These reforms include open access to transmission and distribution networks, select distribution networks to be franchised or privatized, tariff reforms by regulatory authorities. There are also many opportunities in the power generation. There are 9 Ultra Mega Power plants of 4000 MW each. Government of India has assessed that the generation opportunities for at least 150000 MW has not been tapped. In addition to this, there are a lot of opportunities in the renovation, modernization and life extension of old thermal and hydel power plants.

There are many parts in India which are not catered to by power of any sort. This gives rise to opportunities in transmission network for 60000 km by 2012. The private sector participation in these projects is possible only through joint venture and 100% equity mode.

Overall it can be summarized that there is an investment opportunity of about USD 150 Billion over a 5 year horizon.

In the year 2011, there were 20 PE deals in the infrastructure industry totaling 796 Million US Dollars. The largest among them was the investment of 204 Million US Dollars in ReNew Wind power, a renewable energy independent power producer by Goldman Sachs. The company will use this amount to meet its generation capacity targets.

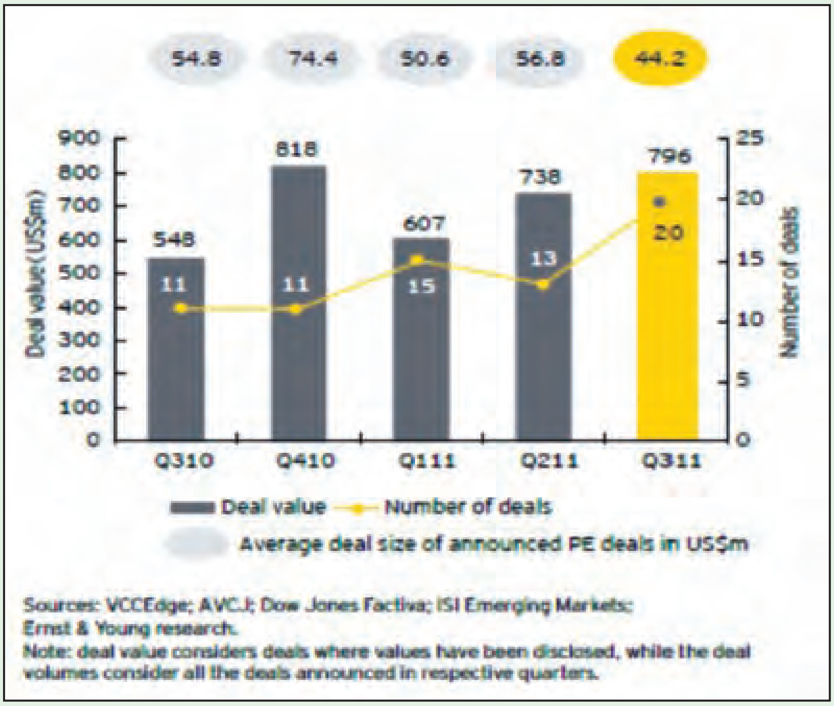


Figure 4 PE Investment trends in infrastructure in Q-o-Q Basis in the last year

Policies

The following are the policies presently in the power sector.

- 100% FDI is permitted in Generation, Transmission and distribution. This shows that the government is keen to bring private players into the industry.
- The policy framework is the Electricity act 2003 and the National electricity policy 2005.
- Incentives: Income tax holiday for a block of 10 years in the first 15 years of operation and waiver of capital goods import duties on mega power projects of above 1000 MW generation capacity.
- Independent regulators: Central electricity regulation commission for central PSUs and inter-state issues. Each state has its own Electricity regulation commission.

SEZ:

SEZs are the Special Economic Zones. The SEZ act and the rules have been under effect from February 2006. By definition, an SEZ is a duty free export oriented area. Duty free implies that it is exempt from the customs duty. There are numerous SEZs in operation today and many others on the verge of being operational.

The incentives available in an SEZ are that there is 100% tax deduction for 10 years for the SEZ developer. There is also exemption from the dividend distribution, sales and service taxes for the developer and a unit of the SEZ. There is also no minimum export requirement for these benefits to be availed. 15 year corporate tax exemption is available on export profits to an SEZ unit. Finally, branches of foreign companies in SEZs are eligible to undertake manufacturing activities.

The SEZ sector is a part of the Real estate sector. There was 324 Million Dollar worth PE deals in the sector in the third quarter of 2011, an increase of 30% over the previous quarter (as seen in figure below).

One of the biggest deals is Blackstone investing 200 Million US Dollars for 37% stake in Manyata promoters, which is a special Economic zone located in Bangalore. This is the first time a PE deal has exceeded 150 million USD in the real estate sector after the crisis in 2008.

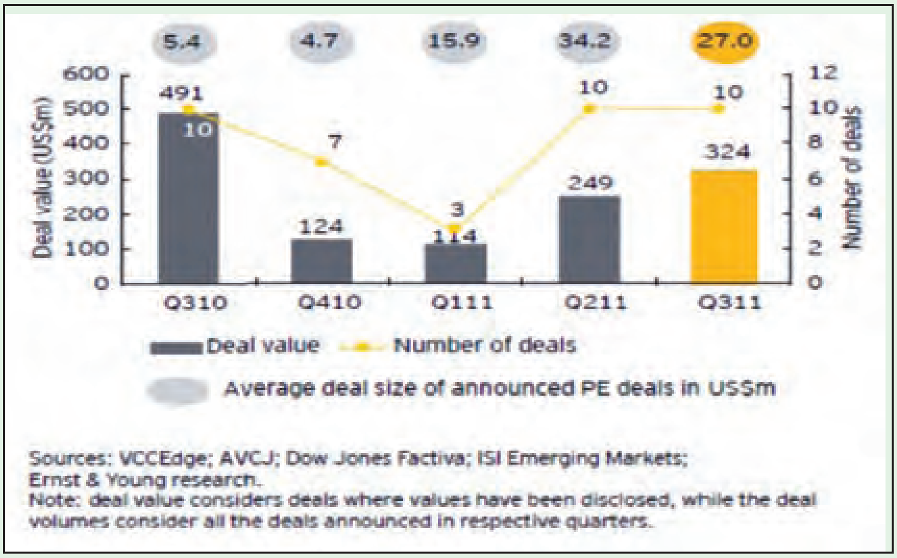


Figure 5 PE investment trends in Realty Hospitality and Construction

Healthcare

Healthcare is another sector to watch out for. This sector is also witnessing tremendous growth due to increasing health awareness and increasing penetration of health insurance. The number of private players in the market space is also on the rise. With increasing growth in this sector, the opportunities along the value chain such as diagnostic services, infrastructure, health insurance etc. In addition to the domestic consumption of health care services, medical tourism is also on the rise. With high quality healthcare facilities at a fraction of the cost in developed countries, people prefer to come to India to get treated. We expect a positive and substantial PE movement in this sector.

The government policy for the sector is as follows:

- 100% FDI is permitted for all health related services under the automatic route including pharmaceuticals.
- Infrastructure has been given to hospitals. This means there is low tariff and higher depreciation applicable to medical equipment.
- To encourage hospitals in rural areas, there is an income tax exemption for 5 years to hospitals in rural areas, tier 2 and tier 3 cities.

IT and ITeS

India has witnessed an IT boom over the last few years. It saw the emergence of cities such as Bangalore as the software capital of India. Most of the fortune 500 companies have set up technology centers and back offices in various cities in India to leverage the cheap labour and resources available in the country.

The vast number of IT engineers who graduate every year in India provides a huge market potential. There has also been an increase in domestic investments in this sector. [6]

Policies:

- 100% FDI is permitted in the automatic route.
- SEZs, Software technology parks have been setup throughout the country and there is income tax exemption for these units in these areas.
- IT Act provides a backbone to e-Commerce.

List of the major deals in India for these sectors in year 2011:

Deal Type	Sector	Target Name	Acquirer Name	Seller Name	Announced Total Value ($ Mil.)
Acquisition	Energy	ReNew Wind Power Pvt Ltd	Goldman Sachs Group Inc/The	-	10000
Division	SEZ	Pune special economic zone	Blackstone Group LP	Multiple sellers	8092.75
Division	Life Sciences	AxiCorp GmbH	Investor Group	Biocon Ltd	2622.13
Acquisition	IT Sector	Siemens Ltd/India	Siemens AG	-	61771.08

Figure 6 Deals in promising sectors in focus of this paper
Source: Bloomberg

Conclusion

As seen in the paper, the private equity sector in India is in its nascent stage as compared to other countries. Traditionally there has been dominant PE activity going on in the sectors such as IT, ITeS. This is no more the case at the present. Due to the sectoral shift and favorable policies in other sectors, the scenario is changing. Thrust on sectors such as energy, SEZ and healthcare by the introduction of favorable policies have made them active for the PE deals. We can expect much PE activity in India in the coming few years.

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ERP Systems—Overview of their Emergence, Implementation and the Way Forward

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A. Introduction

ERP systems have emerged as the changing face of industry in last twelve years or so. Business managers, both functional and technical, working in trade and industry for long have witnessed the importance these systems have gained over a period of time as a driver to optimize resource utilization and profitability.

This article attempts to summarize comparative strengths of ERP systems, considerations relevant to their implementation and the future where these systems are headed.

Readers will appreciate that it is only a *synopsis* of the whole new world that ERP systems have given rise to in trade and industry. It is intended to give a flavor of what to expect from ERP systems, the precautions to be taken during their implementations and their relevance in long run from the perspective of advanced web enabled applications.

B. Computerization in Pre Globalization Era

Traditionally, Electronic Data Processing (EDP) was considered a back door function in industry. Programmers, System Analysts and Executive Managers in EDP took up system development work based on requirements submitted by individual departments. Functional departments prepared documents in desired *templates* and submitted those to EDP where Data Entry Operators punched the data into the system.

Until ERP dawned on horizons of business, Pay Roll, Inventories, Accounts Receivable and Payable, Fixed Assets etc. were the favorite applications close to the heart of a finance manager; Bill Of Materials, Route Cards, Production Orders were the usual applications for operations managers. Sales management used to be concerned with printing of sales invoices based on input feeds by data entry operators.

Most of these used to be standalone applications, meaning that these records or the sets of data would not have any *interface* with other functions, so to say, customer accounts were not being updated when sales invoices were raised on customers and system did not generate accounting entry to provide for liability or credit to cash or bank when goods receipt was posted.

Data for given applications used to be punched at a time and their printed output sent to the departmental managers. Wrong or incorrect input, either at its origination or during data entry was not very uncommon and one could very often hear murmuring of both functional and EDP managers 'Garbage in, Garbage out'...(!)

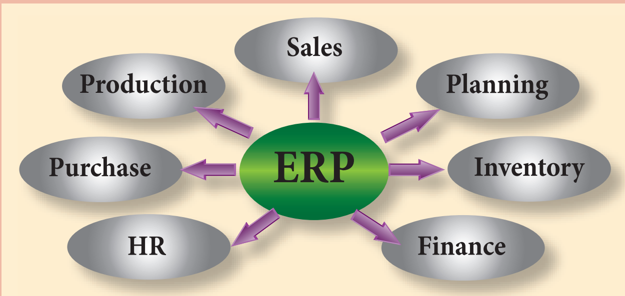
Data Entry Operators used *Hash Totals* to check and verify accuracy of data,… leaving ample scope for *compensating errors* inside huge blocks of printed paper…(!)

Expecting reports from EDP in a desired format with desired information captured in reports was at times considered next to impossible…(!)

During late eighties and onwards, however, progressive organizations started taking initiative towards integration of some of these applications. Integrated applications like Material Requirement Planning (MRP) or integrated financial accounting involving General Ledger (GL), Accounts Receivable (AR) and Accounts Payable (AP) started becoming common. However, coverage of those systems from integration perspective was not very comprehensive.

C. Emergence of ERP Systems and their Comparative Strengths

The modern day Enterprise Resource Planning (ERP) systems encompass all activities and functions carried out in a business organization. These systems process data in an integrated manner based on established relationships amongst those activities and functions.



Most of these ERP systems also provide for automation in operations by scheduling *background jobs* to execute various business processes and sub processes in a desirable sequence without manual intervention. Their comparative strengths are discussed hereunder—***On Line (Real Time) Data Processing***

In ERP systems, the data is processed on *real time* basis and reflected in reports on line. For example, posting of a goods receipt updates Purchase Order against which goods were ordered; it updates inventory record of relevant Item codes in 'inventory module'; it generates posting in financial accounts; and it also updates inventory and clearing account balances in Balance Sheet.

Any business transaction, financial or quantitative, processed in ERP system environment will update records in all relevant functional areas. Thus, when customer order is received, for example, ERP system will provide for creation of sales order with reference to it, create delivery order, post goods issues against sales order impacting inventories and generating accounting entry against it, generate sales invoice and post financial transaction for sales. System will also concurrently update reports in MIS. Data once entered is cross referenced subsequently in all relevant documents and records *avoiding duplication* of data entry to a great extent.

As against this, scope of standalone applications used to be very limited. Most of these applications used to be *home grown*, catering to the specific needs of concerned departments. So, continuing with same example one could envisage independent systems in 'Sales and Distribution' management to book customer purchase orders, to create delivery orders, to print sales invoices, to post financial entries for sales, to update report on Days Sales Outstanding and to update Credit History for individual customers.

2. Built In System Intelligence and Granularity in Reporting

Stand alone applications had inherent limitations and were only used to process voluminous data; to perform arithmetic; to ensure accuracy and speedy retrieval of the data and to print ledgers and documents. These applications lacked *built in system intelligence* to check the data entered and validate its legitimacy. Advanced ERP systems like SAP R/3 have strong system intelligence capabilities. For example, budget or stock availability checks instituted in ERP systems can prevent purchase order being raised if budget is exceeded or sales order being raised if stock is not likely to be available by scheduled delivery date.

Stand alone applications did not provide for any *granularity* in reporting. ERP systems offer capabilities to develop reports with required granularity to provide *kaleidoscopic view* of operations and profitability. For example, a report on sales, COGS and net margins (PBIT) for different combinations of characteristics like customer, product, sales region, sales district and sales offices is possible to be developed in ERP systems.

3. Strong Document Numbering Controls and Audit Trails

In ERP systems, one finds that the document numbering controls are robust and that every transaction, financial or quantitative, is always documented and identified with reference to a document number. So, establishing *audit trail* for any '*end to end*' process is always easier in these systems.

ERP systems have given rise to the concept of 'end to end' processes like 'Order to Cash (OTC)' or 'Procure to Pay (PTP)' or 'Record to Report (RTR)'. The built in audit trails make it easier to track document references, in any end to end process like OTC, for example. It is easier to track, for example, document references for quotations, customer Purchase Order, Sales Order, customer advance, Delivery Document, Sales Invoice, and subsequent settlement of customer receivable for every billing transaction processed in system. SAP R/3 provides for such audit trails in respect of most business processes.

Stand alone applications which ran primarily based on data feeds in batches did not provide for such robust audit trails as those applications lacked interface with other related applications. For example, application to process goods receipts did not have interface with General Ledger to generate accounting entries for goods receipts nor did it update purchase orders against which goods were received.

4. Eco-friendly Nature

The III Tier System Architecture used in ERP systems enable individual users view transactions and reports being updated on *real time* basis. Carrying loads of print outs of various ledgers is no longer considered necessary. In a way, these ERP systems are very environment friendly as well..!!!

This was not the case with conventional stand alone systems wherein data punched in the system used to be processed in batches and made available to users usually in printed form.

5. Best Business Practices

Of late, most business organizations have implemented ERP systems offered by credible multinational or domestic companies. The decision to do so instead of depending upon in house capabilities stems from the perspective of ensuring assured systems support over long term and availing the benefit of best business practices configured in those systems.

ERP systems coordinate resources, information and activities needed to complete business processes in all functional areas like Materials, Production, Sales, Finance, HR, etc. System updates relevant records in an integrated manner whenever any business process or sub process is executed in the system.

6. Improved Return on Investment

Given the nature of these systems it is rather easy to imagine their vast potential in bringing operational efficiencies in their wake. These systems can reinforce strong managerial controls, focus attention on areas where improvement is necessary, and enable organizations to operate on principles of *lean management*.

Market competition in today's world has no boundaries. Globalization of business the world over necessitates that every business organization must utilize its fullest potential to reduce costs and improve its market share and profitability to stay afloat.

Realizing this, most business organizations, small and large alike, have implemented ERP systems or they are in process of their implementation or on the look out for ERP system that is optimum to their needs from cost benefit perspective. Mergers and acquisitions are quite obvious in today's business world. The bigger fish would always want smaller ones to adopt and roll out the same system it has implemented. World is not static even when it comes to the newer versions of these systems and their Integration strengths. So, the process of implementing system version upgrades, roll outs and enhancements will continue unabated. Ongoing system implementation projects and their support round the clock, are matter of routine in most parts of the world.

7. Team Work and Improved Employee Morale

To implement the ERP systems i.e. either to replace manual or stand alone legacy systems or implement version upgrade or system enhancements in any organization, you need a team comprising Domain Consultants, Application Developers, System Administrators, Project Managers and least to mention enthusiastic Business Process Champions from business and you also need a strong support from top management.

You need domain consultants who will understand business; interact ably with users in different functional areas; put across their view point and share best business practices implemented elsewhere in past. Given the nature of integrated systems environment, it follows that a consultant or key user in any given domain, may it be finance or production or sales, cannot work in isolation. He or she would have to move in tandem with consultants in other areas.

Standalone applications viewed functional departments more as water tight compartments. Departmental interests deserved more attention over organizational effectiveness of operations leading to inter departmental or inter personal feuds in many instances.

D. System Implementation Costs

ERP system implementation projects involve considerable cost outlay. This is regarded purely as an investment and the initiative for the same is usually taken at the highest level of management hierarchy.

Many factors will impact the cost needed for such projects, volume and complexity of operations and geographical diversity of business being the most important considerations from overall implementation cost perspective.

ERP implementation involves costs to purchase user licenses, fees that the implementation partners charge, cost of hardware like servers and desktops, cost of training from ERP system vendors, cost of logistics for consulting team, cost of work sub contracted etc.

Considering the amount of expenditure involved, the time it takes to implement the system and the shortcomings that the system may suffer from *flaws* in its implementation, management of the business keenly observes project progress on regular basis.

E. Implementation Period

ERP system implementation is usually a long drawn process in large organizations. Depending upon complexity of operations and number of plant or office locations, the initial implementation could take anything between six months to couple of years time.

Multinational organizations carry out these implementations in phases over different geographies like Americas, Europe, APAC (Asia Pacific Region) or AMEA (Africa and Middle East Asia).

Some organizations adopt a different approach. They start with usually financial accounting alone, and then integrate Materials and Sales functions and once these basic modules stabilize they implement Production Planning, Controlling and HR.

Regardless of the time it takes, ERP implementation is regarded as a project concurrent to the main business and regardless of the fact that the project is undertaken concurrently it is accorded prime importance, given far reaching implications any good or bad system has on the business.

F. Stakeholders

There are many stake holders in this project, right from top management to a process owner responsible to handle day to day activities.

There is steering committee comprising representative from top management, usually CEO or CFO/COO and one from implementation partner with matching capabilities. Then there are project managers, functional heads, business process champions, key users and employees at large.

Larger the business, larger will be the scope of the project for initial implementation and larger will be the overall project team. Resources from business are drawn either as 'Full Time' i.e. working exclusively on system implementation or on 'Need Based' basis.

All of these role players will have some stake in successful implementation…. process owners need simplified processes; business process Champions look forward to promotions...(!); middle level managers want to ensure that they continue to have say in business and their importance is retained... (!); top management wants system just not to replace legacy systems but the system that will improve operational efficiency.

G. Dynamics of System Implementation

Any ERP system implementation would usually involve four phases mentioned below. The time estimates for their completion depend mainly upon scope of the given project.

1. Requirement Gathering and Business Blue Print Documentation
2. Business Process Re engineering and System Realization
3. Go Live Preparation and
4. Go Live and Post Go Live system support

First two phases are particularly important from the perspective of building robust system that fulfills user expectations. It is during 'requirement gathering' and 'system realization' phases that the utmost care needs to be exercised to ensure that there are no communication gaps and user expectations are met.

The first phase, *Requirement Gathering and Business Blue Print Documentation* involves activities like –

i. Conducting user workshops and interviews to understand current business processes, master and transaction data processed in legacy systems and reports produced by those systems.
ii. Performing so called *'Gap Analysis'* to bring out gaps in current practices and future expectations.
iii. Documenting current practices as well as proposed requirements in what is known as '*As Is Status*' and '*Proposed To Be*' documents.
iv. Determining if the requirements could be met by standard system configuration i.e. through Re-engineered Business Processes as recommended in ERP systems or if the requirements would need custom development.
v. Conducting *play back sessions* before select audience to reconfirm if requirements were correctly understood.
vi. Carrying out system configuration and executing transactions with sample data to offer *Proof of Concept* (PoC) for specific solutions sought by the business.

At times, this phase of requirement gathering is regarded as a project by itself and is appropriately named such as 'Feasibility Study' or 'Discovery Phase'. It is independently paid for provided all of its clauses are complied with. In such a scenario, it is considered as a precursor to proposed system implementation. The implementation partner is proposed to come up with detailed *effort estimate* and implementation price based on the inputs and insight gathered during this phase.

However, practices do differ. Many a times, based on proposals submitted and presentations made by implementation partners invited to participate in bidding, an implementation partner or their consortium is awarded a contract for entire system implementation including the time for requirement gathering.

The second phase of *Business Process Re Engineering and System Realization* starts once business approves the Business Blue Print document where in 'As Is Status' and 'Proposed To Be' is captured. Robust ERP systems like SAP R/3 recommend clients to adopt the best business practices that they offer. But, it is for the client to oblige and re-engineer certain processes as recommended by ERP vendors. There is always scope to customize system as per business requirement. However, the choice to do so should be exercised with great care keeping in mind cost benefit analysis of it and long term sustainability.

Functional consultants configure the system based on the BPML (Business Process Master List) prepared during BBP phase. It is extremely important for Business Process Champions and key users from business to involve proactively during this phase.

They have to provide sample master data to be maintained in different functional modules on realistic basis keeping in mind the current as well as proposed requirements, understand 'in built' system intelligence and cross functional integration aspects. They have to understand the way data gets processed in system and they have to also get a good feel of hands on experience.

Usually, implementation partners provide high level and more detailed training to core users. But, it is for core users to utilize the opportunity and understand system intricacies.

It is also during this phase, that the consultants and developers carry out system developments. Usually, implementation partners prescribe a detailed process, generally referred to as '*Change Requests Control*', to follow to accomplish any small or big development. It is for the PMO (Project Management Office) and QA (Quality Assurance) teams to ensure that the process laid down is complied.

QA prescribes various forms of testing during this phase. Stand alone processes (not involving any cross modular integration) like maintenance of masters (Customers, Vendors, Materials, Bills of Materials etc.) in respective modules are prescribed for ***Unit Testing*** by key users.

Core users then participate in ***Integration Testing*** of end to end processes involving cross modular integration. Domain consultants provide active help to core users during integration testing.

However, another form of integration testing known as ***User Acceptance Testing*** is usually expected to be performed by core users independently. It is based on this testing that core users have to provide sign off in token of their acceptance of system configuration and developments, if any.

If business has multiple entities in same systems environment where projects for system enhancements are of ongoing nature, then QA also prescribes schedule for ***Regression Testing*** which is intended to ensure that the system set up is independent for different entities according to their business requirements.

System administration cell will usually conduct ***System Performance Testing*** with full data upload and multiple system logons to ensure that system responses are not slowed down.

In bigger implementations involving substantial migration of data from legacy systems and number of interfaces with external systems, usually a ***Pilot Run*** for a brief period is recommended.

Pilot run helps in judging how effectively interfaces will run and if the *'black out' period* envisaged will suffice to migrate data during system change over from legacy to ERP. Based on the results of pilot run, project team gets additional opportunity to fine tune the system and schedule for data migration, wherever necessary.

Black out period is the period during which both legacy and ERP systems are not available to users to enter data or process any transactions. Usually it is recommended during data migration. This consideration is particularly relevant in retail industries where volume of transactions processed every day is enormous.

Around the time these forms of testing and the pilot run are due for closure, steering committee generally deliberates on whether the time is ripe to go live or not. Various considerations play a role in this decision making, the important ones being preparedness of the organization to go live and comprehensiveness of the system to meet desired objectives.

During *Go Live Preparation phase*, PMO ensures such things as -

i. Users are equipped with system User Ids, passwords and system authorizations
ii. The system logon pad is installed on desktops and laptops
iii. The users are trained adequately in processing transactions under their control
iv. Different plant and office locations are well connected
v. The process for data migration is adhered to by all concerned
vi. The support matrix is published and understood by all concerned for post go live system support
vii. Key users and business process champions have no vacation plans soon after system goes live (!)
viii. Critical data like financial and material balances is validated by key users.

Usually, PMO will have a check list to ensure that all precautions have been taken and necessary preparations are in place. PMO will monitor the progress and start taking stock of their compliance few days before system is scheduled to go live.

In any business, there is no such functional area that is very important or less important from overall effectiveness of business operations. How effectively system will seamlessly integrate operations from the stage of planning and procurement of material inputs to manufacturing and selling finished products is something that prominently occupies top management's attention.

After all, any management would invest in implementing ERP system with a view to earn some return, tangible and intangible, on its investment.

The tangible returns could be in the form of improved inventory turnover, reduced bad debts, optimized manufacturing operations and improved profitability through focused sales efforts aided by marginal and net contribution analysis. ERP systems have enabled organizations to perform on principles of lean management bringing in efficiency in operations and improving their *Return on Investment*.

Intangible returns could be in the form of enhanced image of the organization in public eye. In early days of ERP system implementations, investor community viewed companies undertaking ERP implementations very favorably.

Intangible returns could also be in the form of preparedness of business to reap the benefits of technological advancements in the areas relevant to ERP systems and their web applications. Unless ERP system has been implemented, business will not be able to implement advanced web applications like APO, SRM, CRM etc and further optimize operations and profitability.

H. ERP Systems Change the Way of Life in Business Organizations

Operations are no longer viewed as watertight compartments once ERP system is implemented.

Employees are encouraged to take broader view of operations and end to end processes like for example, 'Procure to Pay' encompassing transaction processing right from creating purchase requisition to the ultimate invoice verification and vendor payment.

Those activities performed earlier by employees in different departments like Material Planning, Purchase, Stores, Production, Sales and Finance are realigned in a way that optimizes operations.

With Roles and Authorizations coming in vogue for individuals with system user IDs and passwords, operations become more transparent. Subject to authorizations, concerned employees and their supervisors can view the status of activities under their control in real time.

Clarity over steps to be performed in given processes and operations dispenses need for too many middle level managers and it directly promotes flatter organizational structure. So to say, there is little room for supervisory roles in ERP systems environment...(!)

Offices wear modern look with computers, printers on office desks and central air conditioning. On line transaction processing reveals inter dependencies and helps to reduce chaos resulting from inaction of laggards...(!)

Management tends to view operations from end to end process perspective and it dilutes traditional thinking of 'departments looking after individual functions like Purchase, Sales, Credit etc.

I. Change Management

Discussion over the dynamics of system implementation cannot be concluded without mentioning the process of 'Change Management' that the organizations have to deploy during the period of system implementation.

Providing employees with project progress update at regular intervals through individual emails; putting up banners or posters in shop floor and offices; arranging short quizzes on ERP system and rewarding employees with higher scores; celebrating mile stone completions etc. will go a long way in ensuring that the change in system environment is very well absorbed by all employees.

The tools, techniques or the perceptions about change management may differ from place to place. But, given the organizational and cultural changes that these systems bring in, it is always necessary to ensure that the proposed changes in system environment are understood well by all employees and their mindset gets tuned for the change.

Many large organizations consider Change Management as an activity concurrent to the main ERP implementation project so as to ensure hassle free post go live operations.

J. Way Forward

Most organizations have endured in last twelve years or so the turbulence caused by system change over and the resultant cultural changes. ERP systems have now come to occupy indispensable role in day to day functioning.

However, most of these organizations are still coping up with the prolific capabilities that these systems offer. Advanced solutions in SAP R/3, most preferred ERP globally, like 'Sales and Operations Planning', 'New GL', 'Warehouse Management', 'Material Ledger' and 'Profitability Analysis' have not been utilized to their fullest potential. There is still scope for organizations to improvise on basic ERP systems implemented.

Before I conclude, let me briefly sum up the 'way forward' in terms of systems integration with external customers and vendors. Computerization in business has not stopped with implementation of ERP systems.

Now the future trend would be to –

i. Integrate your business with the business of your suppliers and your customers;
ii. Seamlessly integrate your demand for the inputs you require to manufacture your products and seamlessly integrate your supply of products with the demand for your products by your customers; and
iii. Balance your capacity to manufacture and plans or schedules to procure and deliver in line with plans of your vendors and customers.

All of these applications will be web enabled. They will have integration with ERP systems implemented in the back end. The interplay of all of these applications and systems will result into more efficient utilization of resources at a macro level.

Managing Costs Strategically At Dabur India Limited

Kaberi Bhattacharyya
Asst. Professor, (Commerce)
Netaji Nagar College, Kolkata

Introduction

Indian by birth Dabur India Ltd. (DIL) has its roots steeped in the rich heritage of its motherland. Long before it became fashionable to use herbal-based formulations, the company introduced in the market 'natural' products developed on traditional Ayurvedic wisdom backed by cutting-edge science. Making its beginnings in a small pharmacy in Kolkata way back in 1884, DIL has reached a commanding position in the Indian Fast Moving Consumer Goods (FMCG) space – not to speak of the world market. Dedication to nature and process hygiene have critically contributed to the pristine quality that Dabur represents – with consumers bestowing their implicit trust on its wide range of products which touch their everyday lives.

Therefore successfully brushing shoulders with the 'who's who' of the FMCG world has become the company's second nature and it is here that strategically managing its costs to sustain its competitiveness without compromising on its renowned quality assumes fundamental significance.

Objective

DIL operates multiple product lines spread across mainstream as well as indulgent categories of FMCG. The healing promise of Ayurvedic wellness based on scientific precision is the basic premise of each of its products. Hence their inputs and fabrication are inherently distinctive – yet DIL cannot risk its cost vis-à-vis pricing to spiral beyond the middle-class (the largest consumers of branded FMCG in the country) affordabilities, especially in the mainstream categories – and jeopardize its competitiveness, altogether.

In this article a humble attempt has been made to highlight the measures that DIL routinely partakes in, to contain its costs and thereby grow and sustain its competitiveness in the light of the very unique proposition that it brings to the market.

Strategically Managing Costs

Cost controlling measures at DIL generally span across strategic futuristic planning, use of calibrated hedging mechanisms and e-sourcing initiatives. The following efforts of the Company particularly stand out in this context:

Addressing Input-Price Inflation

Apart from the staple FMCG items like toothpaste and shampoos, DIL has a major interest in the Indian beverage market, where it operates its range of fruit and vegetable based beverages under the brand 'Real'. Here forward cover for major raw materials running upto three months has helped DIL combat food inflation and hold its prices steadily in comparison to its rivals.

Holding its price steady in a tumultuous market helped maintain the market-share for DIL's brands; complemented effectively with an integrated approach to raise sales volume. Rising input costs have been largely mitigated through such volume-driven growth. Here it may also be mentioned that DIL has reworked supplier networks, consolidated them and hedged risks through future trading.

Inside the Company, the short and medium-term planning programmes that ensure regular forecasts from its team of strategic planners within each division and department are especially helpful. 3-month forecasts on the industry scenario are provided by these planners to the brand teams for taking effective measures to combat inflation.

Moreover DIL instituted "The Dabur Inflation Basket" for its most relevant commodities, which again is linked to the Wholesale Price Index of the country and help the Company to arrive at actual inflation figures that help it to plan ahead in a more focused manner.

Another significant effort in this context has been consciously creating products where blends using Indian fruits and pulps produce the same quality of output that can be made using exotic foreign varieties. This apart from curtailing the reliance on imports helps to drastically slash down costs.

Cutting Flab

Based on deep consumer insights, DIL has identified products and packaging features that the consumer does not need and cuts them down. Similar observations have also been made in respect of the usage of energy and water as well as labour cost. This in turn has been effective in reducing the operational cost substantially. The company has sought to improve productivity at all its manufacturing locations by deploying various cost reduction and energy saving initiatives which has also resulted in a sharp drop in its manufacturing costs. In its manufacturing unit at Baddi, DIL initiated Total Productivity Management (TPM) principles through an external consultant, moving towards increased automation and multi-operator concept. (DIL Annual Report – 2008-2009)

A new manufacturing technology for extraction of medicinal actives from herbs was rolled out at various locations during 2008-09, generating efficiency in energy costs and providing cleaner and safer manufacturing procedure at the units.

Intrepid, Disruptive But Nevertheless Highly Effective Approaches

In the current times FMCG brands are observed to commonly engage in through-the-line promotional activities[#]. However, in 2010 DIL embarked on a first of its kind marketing initiative for its Chyawanprash in a bid to attract the right target group.

Through-the-line promotional activities involve a blend of above-the-line (e.g. television commercials etc) and below-the-line (e.g. direct interaction , 'free' offers etc) promotional activities.

The company roped in Bhojpuri film actor Ravi Kishan to endorse its Chyawanprash brand in Bihar and Uttar Pradesh where the actor is extremely popular. Ravi Kishan engaged in exclusively localized below-the-line activities through direct interaction with consumers, dealers and stockists and participated in local events in schools and elsewhere. At the same time national celebrities like Bollywood superstar Amitabh Bachchan and Indian cricket captain MS Dhoni featured in TVCs and other all-India campaigns (comprising both above-the-line and below-the-line activities) for Dabur Chyawanprash.

Roping in local celebrities to connect with local consumers, dealers to intensively promote a brand helps to slash down promotional costs apart from being highly effective to pump up volumes. Such phenomenon is akin to where marketers shun following set patterns to take intrepid, disruptive approaches that has been described as 'breakthrough innovation' by Harvard Professor Clayton Christensen.

Leveraging I-T In Procurement Process

In December 2002, Dabur signed up with FreeMarkets, a global firm which provides Information Technology (IT) enabled solutions that help companies streamline their procurement process. The basic working of IT-enabled sourcing solutions commonly called "e-sourcing" is that they seek to line up all the suppliers of a company online – ranking them on the basis of costs and performance and then procure materials from them through bidding "events" conducted over the Net. For DIL, the technology from FreeMarkets significantly cut procurement costs, reduced the cycle time for purchases and shortened the negotiation process for buying materials. The Company procured Rs.210 crore worth of raw materials even way back in 2003, through e-sourcing, which accounted for almost 50 per cent of its total raw material spends. (DIL Annual Report – 2003-2004) The e-sourcing initiative for DIL is not restricted to non-critical inputs alone. In fact, it procures online a range of herbal raw materials including saffron, spices and essential oils through the same process.

Moreover it has also e-sourced some part of its services and logistics needs, apart from requirements for hardware and packing materials. Such initiatives has also introduced greater transparency into the sourcing process and resulted in significant cost savings. It may be mentioned here that such impressive performance of DIL in sourcing was also recognised by Indian Institute of Materials Management, which awarded the 'Chief Procurement Officer Award for 2003' to the Company's Vice President–Supply Management in the year 2003. Encouraged by the success of its sourcing initiative, DIL implemented the 'Spend Visibility' solution in collaboration with 'Ariba' (earlier FreeMarkets) to further strengthen its procurement efficiencies since 2004-05. This considerably improved the quality of information available at an item-wise level, allowed better visibility of sourcing priorities, and resulted in the formulation of a more efficient and cost-effective sourcing strategy.

DIL also implemented specialized software (Sourcing PRO) with Ariba that enhanced its ability to manage different cost categories — with the system disseminating better processed information for improved decision making.

Locational Advantages Of Manufacturing Facilities

To tone down the cost push effects, DIL has developed an optimal mix of manufacturing facilities at different locations to reap maximum benefits from fiscal concessions and economies of scale. For example, the multi-fruit processing facility at Siliguri, West Bengal, produces pulp and concentrates which has contributed to achieving full backward integration for DIL helping to realise the resultant cost efficiencies. The location of this plant is also a major source of its competitive strength. It is located at the heart of a major fruit-producing and trading area, thus, giving it access to a variety of fruits including litchi, guava, mango and tomato at competitive prices. Moreover, it is in close proximity to the company's juice plant located in Nepal, thereby reducing time and cost of transportation

Efficiencies in the supply chain right from procurement to production help to cap input costs and it is pertinent to mention here that DIL has 12 production facilities in India, out of which two main units are at Baddi (Himachal Pradesh) and Pantnagar (Uttaranchal) and eight factories which are located at Sahibabad (Uttar Pradesh), Jammu, Silvassa, Alwar, Katni, Narendrapur, Pithampur and Nashik. The Foods business is serviced by manufacturing facilities at Newai (Rajasthan) and Siliguri (West Bengal).

In 1999, DIL installed an enterprise resource planning (ERP) system, enabling it to integrate internal functions such as supply chain, purchase, stores and manufacturing. It also networked its manufacturing facilities, offices and key distribution constituents. This endeavour found fulfillment in the succeeding decades when the processing time was reduced substantially. More importantly, DIL's working capital requirement also dropped in the process, leading to major savings in interest cost outgo. Incidentally, the working capital cycle was reduced from 82 days to 66 days, during 2000 – where reduction in inventories and increase in credit days played major roles.

Efficiencies In Supply Chain Management

With over 600 SKUs to market, it is no wonder that the Company continuously strives to drive efficiency in its supply chain management. The supply chain integrates a wide range of functions encompassing production scheduling to materials planning and procurement to primary distribution. Here as already mentioned IT has played a major role in strengthening the supply chain management by improving operational efficiencies in procurement, production and delivery systems. The implementation of two ERP systems – 'Baan' and 'Mfg Pro' — in production and distribution respectively, has contributed wholesomely to the supply chain management through secure and proficient production planning on the basis of accurate secondary sales and stock data. This again has augured for greater flexibility of operations; lower operation cycles and finished goods inventories; reduced delivery costs, while simultaneously improving customer-servicing levels in addition to responding to tight budgetary controls.

Use of Mfg Pro provides 'real-time information' about the inventory and sales situation at the distributors, categorically improving the accuracy of demand forecasts. These demand forecasts are then fed into the back-end system (Baan) for materials planning and production scheduling. The Secondary Sales System which is also operational provides countrywide information on secondary pipelines and sales by brands, and has helped reduce pipeline inventories. The improvement in area-wise and brand-wise inventory management seeks to scale up the entire supply chain management through better sales forecasts, production scheduling, materials planning, vendor management and raw material sourcing. Focused improvements in supply chain management resulted in the company working with negative working capital as on 31 March 2004—the cash cycle remarkably reduced from 39 days in 2002-03 to minus 5 days in 2003-04 (DIL Annual Report – 2003-04) and came down further to negative 20 days of sales during 2004-05. (DIL Annual Report – 2004-2005) The net operating working capital of the company has continued at negative level ever since and has been additionally helped by efficient management of receivables and creditors. There was a remarkable reduction in Receivable outstandings from 23 days of sales to 13 days of sales. In addition, better inventory management led to a reduction in inventory from 48 days of sales to 46 days of sales. (DIL Annual Report – 2009-2010)

Again from 2003-04, as a part of its sourcing strategy, DIL has consolidated its sourcing base for all group companies, including its foreign operations, so as to benefit from economies of scale.

Reduction Of Interest Outgo

Over the years, DIL has been acutely conscious of its interest-payment liabilities and has been earnest in stemming the interest outgo. These include securing low cost debt by capitalising on its strong debt rating, as well as retiring high cost debt apart from obviously generating strong cash-flows. In the process, total debt of the Company reduced to Rs.39.8 crore on 31 March 2004 compared with Rs.81.7 crore for the FMCG business as on 31 March 2003. This has significantly reduced interest payments from Rs.11.9 crore in 2002-03 to Rs.6.9 crores in 2003-04 for the FMCG business—a reduction of more than 42 per cent. (DIL Annual Report – 2003-04)

Other Measures

Kaizen, implementation of stringent wastage control norms and energy audits at various plant locations constitute some of the other initiatives at cost-control. It may be mentioned here that even in 2003-04, product failures at the unit level had almost been nil, and the rejection rate at the consumer level had been as low as 0.3 parts per billion. (DIL Annual Report – 2003-04)

Human Resource recruitment costs have been brought down through the introduction of a structured employee referral programme and creation of centralised employment database with access control capabilities.

The energy conservation and green initiative, was introduced in the 2008-09 financial year and focused on the implementation of alternative fuel technologies for steam generation at several of its units, both in India and in overseas locations.

In March 2008, DIL forayed into its retail business – 'new *U*' , dealing in the beauty, health and wellness space. Within the first year 'new *U*' opened nine stores in the Delhi-NCR region as well as southern part of India. However due to high rental costs and less than expected response, DIL shelved further expansion of this project till a more opportune time.

Conclusion

The FMCG market in India, like in many other parts of the world, is extremely competitive. It is a steep challenge therefore to maintain here, one's price competitiveness without compromising on quality. This becomes an even more daunting prospect when the basic proposition of one's product and processing is thoroughly distinctive. Upholding of such intrinsic individuality is default with delivery of greater 'value' to customers. However the test is to subscribe to the competitive price structure in the category and the spiraling inflation in the inputs market does not make the job any easier. Yet this has been life all through for DIL and the Company has not baulked under such tremendous pressure; rather it has gone from strength to strength from its modest beginnings and today DIL proudly lays claim to industry-best volume-led growth. It goes without saying that such stupendous performance is the synergistic culmination of all efficiencies within the company of which controlling, containing and strategically managing cost forms a very significant part. This latter competence has enabled DIL to transfer rising cost to its customers, as little as possible – again an incredible feat especially when price-rises in the recent years even by behemoths in the FMCG sector have been thoroughly counter-productive.

SPECIFIC REFERENCES

1. DIL Annual Report – 2003-2004
2. DIL Annual Report – 2004-2005
3. DIL Annual Report – 2008-2009
4. DIL Annual Report – 2009-2010
5. www.dabur.com

The Torch bearers of our Profession !

Nomination of Shri K Narasimha Murthy as Member Convenor on the Audit Reforms Implementation & Monitoring Committee

We are happy to inform that the Government of India appointed our Senior Member of our Institute, Shri K Narasimha Murthy, BSc, FCMA, FCA., as Member Convener on the Implementation & Monitoring Committee for overseeing the Audit Reform process in the Public Sector Banks. The Committee has to ensure the entire process should be completed in all the Banks by 31st March, 2013. Earlier, he was in the Committee which has designed the reform process.

He is closely involved with several National level Financial Institutions, presently on the Board of LIC Housing Finance Limited, APSFC and Board of Supervision NABARD. Earlier he was associated as a Director with IDBI Bank Ltd.(2001-'11), UTI Bank Ltd., (presently AXIS Bank) (1999-2004), Unit Trust of India (UTI)(2002-'03), IFCI Ltd.(2008-'09), APIDC Ltd., Bombay Stock Exchange etc. As Chairman of Expert Committee on Urban Co-op. Banks (UCBs)(2002) in A.P., he analyzed the performance of more than 140 UCBs. He has been associated with more than 28 High Level Committees as Chairman / Member both at National & State Level. His efforts in the furtherance of Costing & Management Accounting Profession in India were recognized by our Institute in October 2007, by honoring him with a Citation.

Presently, he is also a member on the Cost Audit & Assurance Standards Board of our Institute.

It is a matter of great pride that a senior Member of our Institute is steering Audit Reforms in the whole Banking System in India.

Regions & Chapters News

WIRC

Aurangabad Chapter of Cost Accountants (ACCA)

ACCA organized three days programme on "Communication and Soft Skills" for the students of the Intermediate Course at M P Law College, Aurangabad during 13th July to 15th July, 2012.

CMA Sanjay Mundade, Director & CFO of Skoda Auto India (P) was the Chief Guest and Dr. C.M. Rao, Principal, M P Law College was the Guest of Honour on this occasion. CMA Rajesh Deshmukh, Chairman, ACCA welcomed the guest, speakers and briefly narrated the new coaching policy of the Institute. CMA A.R. Joshi, Chairman of Training & Education Committee explained the theme of the Training programme. The faculties for the programme were Shri Ashvin Deshpande, CEO, Atmabhan Academy, Mumbai, Shri Rohit Ronghe, Director, Alchemy Consultants, Aurangabad and Sunil Ullal.

Shri Ashvin Deshplande spoke on effective communication Skills. Shri Rohit Ronghe conducted the group discussion and enlightened the students on PPT Skills. Shri Sunil Ullal provided valuable tips on Time Management and getting ready for examinations. CMA Ashish Devdhe co-coordinated the proceedings of the Programme and proposed vote of thanks. Around 50 students of Intermediate have attended the Training Programme

The Quarterly Bulletin of Aurangabad Chapter "Spandan" was also released on the same day in the hands of the Guests.

Vapi-Daman-Silvassa Chapter of Cost Accountants (VDSCCA)

VDSCCA organized a full day workshop on practical applications on 'Recent Changes in Service Tax' at Hotel Kamat, Silvassa on 24th August 2012. The speakers were CMA S S Gupta and CMA Ashok Nawal, MD, Bizsolindia Services (P) Ltd. Both the speakers enlightened the audience with practical applications of new Service tax law. About 94 delegates representing some of the top notch companies like Castrol, Gulf oil, UPL, Nelson Raymonds, Ruby Macons etc. attended the workshop. CMA B. F. Modi, Chairman of the Chapter and CMA R. M. Kandoi, Vice Chairman, VDSCCA made all the efforts in making the workshop a successful event.

SIRC

Hyderabad Chapter of Cost Accountants (HCCA)

A one day seminar on "Special Issues Relating to Construction" was conducted on 18th August, 2012 at Hotel Katriya, Hyderabad. The special address was given by Shri G. Yoganand, MD, Manjeera Constructions Ltd. CMA K.K. Rao, practicing Cost Accountant, CMA R.S. Raju, Vice President (F & A), Nagarjuna Constructions Co. Ltd., and eminent Advocates Shri M. Narayana Swami Naidu and Sri J.V. Rao, delivered their views on the subject matter. Also present were CMA (Dr) PVS Jagan Mohan Rao, Council Member, CMA K.K. Rao, Chairman, HCCA, CMA B.L. Kumar, CMA Radha Krishna Komaragiri, CMA A. Vijay Kiran, CMA S. Nagendra Kumar, CMA CH. Venkateswarlu and 44 other delegates both from the costing fraternity and other professions participated in the seminar.

Bangalore Chapter of cost Accountants (BCCA)

BCCA conducted a one day programme on XBRL in association with Continuing Education Programme Directorate, New Delhi at the Chapter premises on 23rdAugust 2012. CMA K.R. Murali Krishna, Chairman of the Chapter welcomed the Speakers and participants. CMA Suresh R Gunjalli, Chairman, PD introduced the Speakers, Shri. B. Vivek and Shri. P.V. Subramanyam, both eminent XBRL Trainers. More than 50 delegates attended the programme. The programme consisted of four technical sessions with an interactive session. There was live interaction by the participants with the speakers. The participants were very appreciative in the way the programme was conducted. The programme concluded with vote of thanks by CMA Vishwanath Bhat, Secretary, BCCA

EIRC

Cuttack Bhubaneswar Chapter of Cost Accountants (CBCCA)

CBCCA organized for its members and students an evening talk on "Recent Changes in Indirect Taxation" on 18th August 2012.

CMA V.S. Datey, an expert in the field of Indirect Taxation was the guest speaker and he apprised the audience about the recent changes made in Indirect Taxation. He cited a plethora of examples with analytical data. CMA K.C. Samal, Executive Director (Finance), NALCO Ltd. was the Guest of Honour on the occasion and he delved about the role and responsibilities of Cost and Management Accountants in the changing Scenario. CMA Sudhansu Kumar Sahu, Chairman, CBCCA and CMA Satyabrata Samal, Secretary, CBCCA welcomed and introduced the Guests. CMA M.R. Lenka, Chairman, PD Committee & CMA Basant Kumar Pattnaik, Chairman, Chapter Development Committee delivered the Key Note address and extended the vote of thanks respectively.

The program was attended by more than 182 members, Managing Committee Members and Students of the Chapter. The session was quite interactive and lively.

Patna Chapter of Cost Accountants (PCCA)

PCCA organized a seminar on Service Tax at Patna on 9th September 2012 at NTPC conference Hall, Patna. CMA V. S. Datey, expert in the field of Indirect Taxes & Corporate Laws was the speaker on the occasion. CMA V. S. Datey impressed the audience through his lucid and thought provoking lecture. He narrated about service tax provisions, Reverse charges mechanism, obligations of service recipients. He replied various queries of audience very satisfactorily. There was an overwhelming response from professionals from Bihar, Jharkhand and other neighbouring aras and about 120 persons participated in this workshop.

In this programme, all Executive Members of Patna Chapter, Delegates from Power Grid Corporation, NTPC, Practicing Members, students and other academicians were present.

NIRC

Jaipur Chapter of Cost Accountants (JCCA)

In order to meet the requirement of students at far off places in Jaipur, a Satellite Centre at Vaishali Nagar has been opened by JCCA for imparting coaching of Foundation & Intermediate Courses of ICAI. This Centre has been started at Khandelwal Vaish Girls Institute of Technology, Vaishali Nagar. The satellite centre was inaugurated by CMA Rakesh Singh, President of our Institute on 25th August, 2012. On this occasion, CMA S.C. Mohanty, Vice President of our Institute, CMA H.K. Goel, Council Member, CMA Vijendra Sharma, Chairman, NIRC, CMA B.L. Jain, Member, NIRC, were also present. CMA (Dr.) Ashok Kumar Jain, Chairman JCCA welcomed all the dignitaries and explained in detail the need for opening this Centre and about the functioning of the same. He also informed that for expansion of Jaipur Centre allotment of additional Land of 3275 sq. meter in RIICO, Industrial Area, Sitapura has been sanctioned by RIICO at subsidized rates on which the construction of the building is proposed. A press conference was also organized after the inaugural function. CMA S.K. Rajpurawala, Vice-Chairman, CMA R.K. Gupta, Secretary, CMA Pawan Kumar Dahiya, Treasurer and other office bearers of Jaipur Chapter Management Committee and senior members of the Chapter were also present on the occasion.

Faridabad Chapter of Cost Accountants (FCCA)

FCCA Jointly with NIRC organized an evening seminar on "Brand Cost Accountant - A Holistic View in reference to Industry" at Hotel Millennium, Faridabad along with Faridabad Small Industries Association (FSIA) on 11th September 2012. CMA Rakesh Singh, President was the Chief Guest. Shri Rajiv Chawla, President FSIA was the guest of Honour. CMA Vijender Sharma, Chairman of NIRC was the Keynote Speaker. The event started with the lighting of the lamp by the President and Guest of Honour. CMA Debjit Patra, Chairman, FCCA extended a warm welcome to the guests and felicitated the President, the Chairman, NIRC and the Guest of Honour.

CMA Rakesh Singh, President, elaborated the mission and the vision of the Institute and the various initiatives taken by the Institute in the development of the profession. The guest of Honour Shri Rajiv Chawla not only endorsed the views of the President but also emphasized the importance of the Brand Cost Accountant. There are possibilities for Introducing services of the Cost Accountants in the various Clusters of MSME's of Faridabad and NCR. Large number of the members of Faridabad Chapter and members of FSIA attained the same. CMA Deepankar Goyal, Secretary, FCCA delivered the vote of thanks. The event was followed by dinner.

F. No.1/1/2003 – CL.V (Pt. file)
GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS

5th Floor, Shastri Bhawan,
Dr RP Road, New Delhi 110001
Dated the 30th Aug, 2012

To
The Secretary,
Company Law Board

Subject: Delegation of powers to Regional Directors u/s 17, 18, 19, 141 and 188 of the Companies Act, 1956

Sir,

I am directed to refer to this Ministry's letter of even no. dated 31.7.2012 on the subject cited above and say that wherever fee on pending cases under section 17, 18, 19, 141 and 188 of the Companies Act, 1956 have already been paid by the companies/stakeholders at the time of filing of petition, consequent upon the transfer of applications/petitions from Company Law Board to the concerned Regional Directors, which is on account of operation of law, the company/stakeholders need not pay fee for the same petitions. Further, all pending cases before CLB under these sections stand transferred to Regional Directors. Lastly, objections, if any, received by CLB with respect to these petitions shall be forwarded to the concerned RDs by the Secretary, CLB in writing.

Yours faithfully,

(Sanjay Shorey)
Joint Director

Copy to:
1. All RDs/ROCs/OLs
2. ICAI/ICSI/ICWAI

Enhancing Value for Enterprise

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

International Residential Seminar on

Strategic Financial Management

29 November - 9 December 2012

Singapore, Kuala Lumpur (Malaysia) & Bangkok (Thailand)

SEMINAR COVERAGE

- Financial Strategies
- Global Sourcing of Capital
- Enterprise Governance
- Corporate Risk Management including Financial Risk Management
- International Financial Reporting Standards (IFRS)
- Corporate Financial Decisions

International Programme on 'Strategic Financial Management'

Dear Sir/Madam,

As You are aware that the Institute has been organizing International Training Programmes and Seminars successfully for the last 15 years. This year also we are organizing an International Programme on 'Strategic Financial Management' during 29 November - 08 December, 2012 at Singapore, Kuala Lumpur and Bangkok.

We request you to kindly participate/nominate your executives to take the full advantage of this unique and special programme.

With kind regards,

Hari Krishan Goel
Chairman, CEP Committee, ICAI

Seminar Schedule

29 November, 2012	Departure From New Delhi (Tentative) Arrival at Singapore	8.45 Hrs. 17.00 Hrs.
30 November, 2012	Technical Sessions: • Financial Strategies • Global Sourcing of Capital • Enterprise Governance	9.00 to 20.00 Hrs.
01 December, 2012	Educational Visits	
02 December, 2012	Departure to Kuala Lumpur	10.00 Hrs.
03 December, 2012	Visits to: • Malaysian Institute of Certified Public Accountants (MICPA) • Malaysian Institute of Accountants (MIA)	9.30 - 18.00 Hrs.
04 December, 2012	Educational Visits	
05 December, 2012	Departure to Bangkok	14.00 Hrs.
06 December, 2012	Technical Sessions: • Corporate Risk Management Including Financial Risk Management	9.00 - 18.00 Hrs.
07 December, 2012	Technical Sessions: • International Financial Reporting Standards (IFRS) • Corporate Financial Decisions	9.00 - 18.00 Hrs.
08 December, 2012	• Educational Visits	
09 December, 2012	• Departure from Bangkok • Arrival at Delhi	6.30 Hrs. 9.30 Hrs.

For Whom

Senior and Middle level Executives of Public and Private Sector Undertakings, Multinationals, Autonomous Bodies, Banks, Insurance Companies, Financial Institutions and Government Departments will find the Programme rewarding.

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₹ 2,50,000 (Rupees two lakh fifty thousand only) per participant on single room basis. Plus 12.36% Service Tax.

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Fee Excludes

Local conveyance, incidentals and personal expenses.

The Nominations are to be sent along with cheque/DD in favour of **'The Institue of Cost Accountants of India'** payable at New Delhi.

Details for ECS Payment : State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi - 110003.

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***CEP Credit 10 Hrs.**

Please Note

- The passport of the participants should be valid for a minimum period of six months from the date of travelling.
- There should not be any additional pages attached with passport as no Embassy gives Visa on the additional pages.
- The passport should bear an 'ECNR' stamp or the 'Emigration Check Required' stamp should be suspended.
- Seminar participation is limited to 15 executives on first-come-first-served basis as lot of requests have already been made.
- Request for registration along with fees will be refunded if we are unable to accommodate. However once registration is accepted by our office, no refund will be made, but change of participation is possible with sufficient time.
- Last Date for Registration Along with Fee & Valid Passport 16th November, 2012.

Registration

For Further Details and Registration Please Contact:

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List of Organizations Benefitted From the Earlier International Programmes of the Institute

- Airports Authority of India.
- Bharat Sanchar Nigam Ltd.
- Central Warehousing Corporation.
- Chennai Petroleum Corporation Ltd
- Coal India Ltd.
- Delhi Jal Board.
- Delhi Development Authority.
- HSCC (I) Ltd.
- HUDCO Ltd.
- ICRA Ltd.
- IFFCO-Tokio General Insurance Co. Ltd.
- Indian Farmers Fertilizers Coop. Ltd.
- Indian Oil Corporation Ltd.
- Inland Waterways Authority of India
- Indian Council of Social Science Research (ICSSR)
- KRIBHCO Ltd.
- KRIBHCO Shyam Fertilizers Ltd.
- LIC Housing Finance Ltd.
- Life Insurance Corporation of India Ltd.
- Mahanagar Telephones Nigam Ltd.
- Ministry of Chemicals & Fertilizers, Govt. of India.
- Ministry of Commerce & Textiles, Govt. of India
- Ministry of Rural Development, Govt. of India.
- MMTC Limited.
- National Institute of Urban Affairs.
- Nepal Electricity Authority, Nepal.
- Neyveli Lignite Corporation Ltd.
- NHPC Limited.
- NMDC Limited.
- Numaligarh Refinery Ltd.
- Oil and Natural Gas Corpn. Ltd.
- Oil India Limited.
- Oriental Insurance Company Ltd.
- Orissa Hydro Power Corporation Limited.
- Petronet LNG Limited.
- Power Finance Corporation Limited.
- RITES Ltd.
- Syndicate Bank.
- Tamil Nadu Newsprint and Papers Ltd.
- Tata Refractories Ltd.
- The Andhra Pradesh Paper Mills Limited.
- United India Insurance Co. Ltd.
- Zuari Industries. Ltd.

About The Institute

The Institute of Cost Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

The Training Programmes

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programmes are classified as :

- Training programmes for practicing managers of both public and private sectors, Banks, Financial Institutions, Multinationals Insurance Companies and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in-house training programmes for industry, government departments and public services. It also offers specific programmes for agriculture, defence, railways, telecom and public utility services.

President	*Vice President*	*Chairman, Continuing Education Programme Committee*
CMA Rakesh Singh	**CMA S. C. Mohanty**	**CMA Hari Krishan Goel**

Guidance Note on Maintenance of Cost Accounting Records

Highlights of Guidance Note:

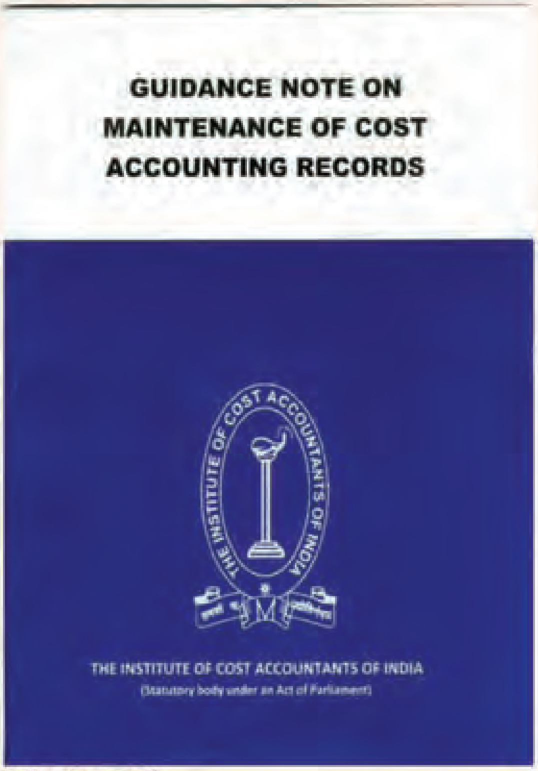
- Thorough and comprehensive after the series of notifications and circulars issued by the Ministry of Corporate Affairs in the last one year.
- Provides guidance on Accounting and treatment of all elements of Costs in accordance with GACAP & CAS issued by the Institute
- Provides Illustrative list of 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
(Statutory body under an Act of Parliament)

MoU with Taxmann for making available the web contents through their web site to the members at concessional rate of Rs. 3600/-

The Institute of Cost Accountants of India, as a result of on-going efforts being taken by the Professional Development Committee towards the Capacity Building measures for members in practice and Industry, has signed a Memorandum of Understanding (MoU) with Taxmann on 6th July 2012 for sharing the web contents through their website at a subsidized rate. This MoU would facilitate the members of the Institute in practice and industry to subscribe Taxmann publications at a concessional rate of Rs. 3,600/-(inclusive of service tax) per annum per member as against normal price of Rs. 7500/- per member per annum.

Features of the Subscription:

After subscription the members may be able to access Taxmann web contents relating to 127 years of Direct Tax Laws (1886-2012) covering 42000 judgments of Supreme Court/High courts since 1886, 19000 Orders of ITAT, 10500 Notifications, 2100 Circulars and 6000 Articles, 100 years of Company Law (1913-2012) covering 9800 Judgments/Orders of Supreme Court/ High Courts/ SAT/CLB/CCI/CAT/ATFE on Company Law/Securities Laws/ Foreign Exchange Laws. The Laws covered are Company Laws, Securities Laws, Foreign Exchange Laws, Competition Laws, Banking & Insurance Laws, Other Corporate Laws, 150 Acts, 350 Rules, 900 Forms, 6000 Circulars, 2500 Notifications and 2500 Articles. Complete data on Service Tax (1994-2012) covering 5800 Judgments of Supreme Court/High Court/CESTAT, Acts, Rules, Circulars, Notifications, Articles etc.

The Taxmann would also provide Mobile Application- "Top stories at this hour" on case laws, statutes, news on Direct Taxes, Company Law and Service Tax Laws. Taxmann would also send e-News Letter to subscribers covering daily updates on their registered e-mails Id.

For more details, members may visit Taxmann website www.taxmann.com or contact:

CMA J.K. Budhiraja, Director (Professional Development)
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi-110003
Email: pd.budhiraja@icwai.org , Phone: 011-24647800

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

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)
	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

For Attention of Members

The Institute has gone live with web based online applications for Associateship/Fellowship/Certificate of Practice/Change of Address as well as online viewing of particulars like dues position, CEP status etc.

Members are requested to check their status from the link : **http://210.212.31.69/External/Home.aspx** to ensure that their profile details are complete and correct. If any discrepancy is noted, the same should be informed to the Membership Department<membership.pradipta@icwai.org>.

The Institute of Cost Accountants of India

(Statutory Body Under An Act of Parliament)

Examination Time Table & Programme — December 2012

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Monday 10 th December, 2012	Financial Accounting	Capital Market Analysis & Corporate Laws	
Tuesday 11 th December, 2012	_____	Financial Management & International Finance	
Wednesday 12 th December, 2012	Commercial and Industrial Laws & Auditing	Management Accounting-Strategic Management	
Thursday 13 th December, 2012	Applied Direct Taxation	Indirect & Direct – Tax Management	
Friday 14th December, 2012	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Organisation and Management Fundamentals
Saturday 15 th December, 2012	_____	Advanced Financial Accounting & Reporting	Accounting
Sunday 16 th December, 2012	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Monday 17 th December, 2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy—December 2012 Examination

Monday 10th December, 2012 09.30 A.M. to 12.30 P.M.	Monday 10th December, 2012 02.00 P.M. to 05.00 P.M.	Tuesday 11th December, 2012 09.30 A.M. to 12.30 P.M.	Tuesday 11th December, 2012 02.00 P.M. to 05.00 P.M.	Wednesday 12th December, 2012 09.30 A.M. to 12.30 P.M.
Management Accountancy	Advance Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination Fees

Groups (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	₹ 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹ 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (b) Students can also download the Examination Form from ICAI Website at www.icwai.org.
   (c) Students can also submit the form online.
2. Last date for receipt of Examination Application Forms without late fees is 10th October, 2012 and with late fees of ₹ 300/- is 20th October, 2012.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, 12 Sudder Street, Kolkata - 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata - 700016.
5. Finance Act 2011, involving Assessment Year 2012-2013 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct - Tax Management (Final) for the purpose of December 2012 term of Examination under Revised Syllabus 2008.
6. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation—1st February, 2013 and Inter & Final - 21st February, 2013.

A. Das
Director (Examination)

National Seminar of Cost & Management Accountants

Theme

Banking Sector - A New Paradigm For Cost & Management Accountants Unveiled

on 23rd December, 2012 , Sunday

at Hotel Hindusthan International Kolkata

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(A Statutory Body set up by an Act of Parliament)

Eastern India Regional Council

HOWRAH CHAPTER

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Fax : 2638 0436
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icwaihowrah@gmail.com
www.icwaihowrah.org

IICA Green Building Manesar

NBCC

Building Landmarks. Creating Milestones

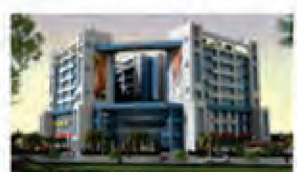
Established as a Government of India Enterprise in the year 1960, National Buildings Construction Corporation Ltd. (NBCC), under the Ministry of Urban Development, Govt. of India, has been executing many a landmark projects in diversified areas both at home & overseas. Presently, its operations can be categorized into three main segments i.e. **(i) Project Management Consultancy (PMC), (ii) Real Estate Development & Construction Business and (iii) Civil Infrastructure for Power Sector.**

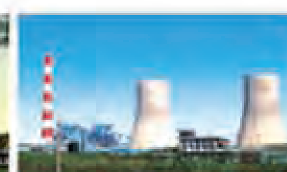
The PMC Works of the Corporation account for more than 90% share in the total Turn Over of the Company as has been witnessed in the past. The company intends to continue to focus on performance & quality execution in order to seek maximum customers satisfaction in PMC services, Civil Infrastructure for Power Sector & Real Estate Development & Construction Business.

NBCC is a certified ISO 9001:2008 company in respect of Project Management & Consultancy Division. As on January 2012, the Corporation has land reserves of approximately 125.245 Acres. Till March 2012, NBCC's Order Book stands at Rs.12000 Crore.

NBCC's income from operations increased from Rs.3231.46 Crore in FY 2010-11 to Rs.3595.82 Crore in 2011-12. It has posted a profit of Rs.289.83 Crore for FY 2011-12, an increase of 38% and Net Worth of Rs.795.49 Crore, an increase of 22%, as compared to the FY 2010-11.

NBCC, a schedule 'A' CPSU, is presently operating in diversified areas that include sectors such as Real Estate-both Residential Commercial, Power, Environment, Health Care, Institutions, Roads, Border Fencing, Mass Housing, Office Complexes etc. The Corporation has also earned a niche for itself recently, by constructing a Green Building named Indian Institute of Corporate Affairs, (IICA) Manesar in the State of Haryana.





NBCC gets Mini Ratna Status

The Government of India has granted Mini Ratna Status under Category-I to NBCC. A communique to this effect, has been issued by the Ministry of Urban Development, Government of India, on September 18,2012.

NBCC is presently a Schedule A Civil Engineering Company operating globally and has been executing projects of diversified nature. The company's excellent performance in various financial parameters over the last 5-6 years has also encouraged it to go in for Initial Public Offer (IPO) which the company launched in the month of April 2012.

NATIONAL BUILDINGS CONSTRUCTION CORPORATION LIMITED

(A Government of India Enterprise)

ISSN 0972-3528

REGISTERED KOL RMS/139/2010-2012
Publication Date : 10th October 2012 R.N.I. 12032/66

CMA Rakesh Singh, President of the Institute, Shri Dipankar Chatterji, Chairman, CII National Committee on Accounting Standards, Shri M. M. Chitale Chairman (NACAS), Ms. Jyoti Vij, & Mr. Nesar Ahmad, President, ICSI at a Joint programme organized with CII on "Corporate Disclosures: Impact of Accounting Reforms" held on 3.09.12 at New Delhi.

CMA Rakesh Singh, President of the Institute, Shri Pankaj Srivastava, Director, MCA, CMA B. B. Goyal, Advisor (Cost), MCA and Shri Nimesh Mittal of TCS at an Awareness Programme on 'Filing of Cost Audit & Compliance Report in XBRL' held on 12.09.12 at SCOPE Complex, New Delhi.

AGM of Members' Benevolent Fund in progress at the Institute HQ on 10.09.12. Seen CMA Rakesh Singh, President, Members' Benevolent Fund, CMA S.C. Mohanty, and CMA Kaushik Banerjee, Members Benevolent Fund.

Signing of MoU on behalf of the Institute by CMA Rakesh Singh, President with the Indian Institute of Corporate Affairs in the presence of Dr. M. Veerappa Moily, Hon'ble Union Minister, MCA

AGM of Members' Benevolent Fund held at Institute HQ on 10.09.12. Seen (from L to R) CMA Sanjay Gupta, Council Member, CMA Kaushik Banerjee, Member, Benevolent Fund, CMA T.C.A. Srinivasa Prasad, Council Member, CMA Rakesh Singh, President, Members' Benevolent Fund, CMA Harijiban Banerjee, CMA S.C. Mohanty & other members of the Benevolent Fund.

Chapters meet in progress at SIRC on 17.09.12

Launching of CMA Support Centre on 14.07.12 at Chikkaballapur, Karnataka. Seen Dr. M. Veerappa Moily, Hon'ble Union Minister, MCA, CMA M. Gopalakrishnan, the then President of the Institute and other officials.

Launching of CMA Support Centre on 14.07.12 at Chikkaballapur, Karnataka. Seen Dr.M. Veerappa Moily, Hon'ble Union Minister, MCA, CMA M. Gopalakrishnan, the then President of the Institute (standing next to the Hon'ble Minister on the right), CMA T.C.A. Srinivasa Prasad, Council Member, CMA B.R. Prabhakar, the then Chairman, SIRC, Shri K. Govindaraj, Govt. Nominee and other dignitaries.

Printed and Published by Rakesh Singh, President of the Institue of Cost Accountants of India, 12 Sudder Street, Kolkata-700 016 for and on behalf of the Institute and Printed at Hooghly Printing Co. Ltd. (A Govt. of India Enterprise).

Editor : Rajendra Bose