

# Marketing of Financial Services: Strategic Issues

Prof.S.Anand & Dr.V.Murugaiah

## Introduction

The financial services sector plays a predominant role in stimulating and sustaining economic growth of a nation. Till recently, the public sector institutions have been showing dominance in all the areas of financial services like banking, insurance, term lending, housing finance etc., in Indian Financial System. But after the initiative of economic liberalization by the Government, the private and foreign players are also putting rapid strides in this sector.

Consequently, the financial services sector in India started growing rapidly in the economy to intermediate between savers and seekers of money. Thus, the competitive climate in the Indian financial service sector has changed dramatically over the last few years.

## Major Players

At present, the players in Indian financial service sector are belonging to one of the following Indian Financial Markets:

- Commercial and Personal Credit Market (dominated by Commercial Banks)
- Developmental Financial Credit Market
- Insurance Market
- Housing Finance Market
- Money Market and Debt Market
- Capital Market

- Government Securities Market
- Hire Purchase and Lease Finance Market
- FOREX Market

## Consumer Profile

There are two types of customers in the business of financial services. They are:

1. Individual customer for products such as bank deposits, company fixed deposits, mutual fund units, insurance policies, company shares and debentures, consumer durable loans, credit cards, depositories, housing loans etc.
2. Consumer as corporate entity for term loans from financial institutions, working capital loan from commercial banks, inter-corporate deposits, equity by way of shares/debentures etc.

In the first category, consumer has also been defined in terms of social class ie, NRI class, high net-worth class, upper middle class, middle class, lower middle class, working class etc.

## New Challenges

In this new competitive environment and globalized trading practices, the marketing of financial services posed following new challenges to the financial sector in the market place.

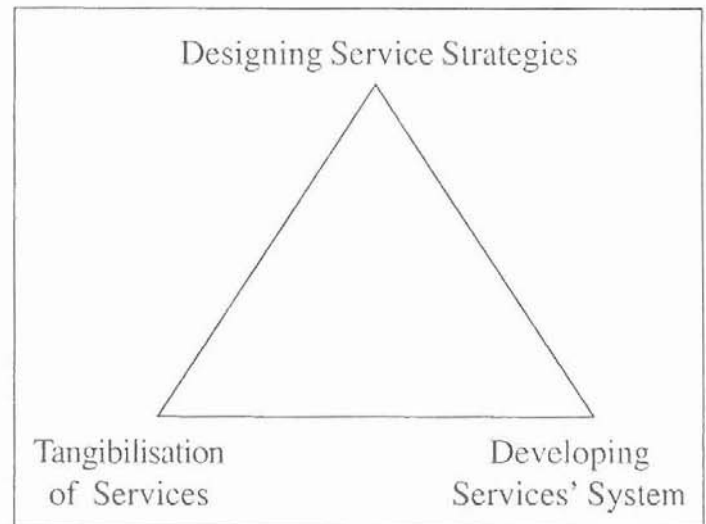
- Deregulation in the financial service sector gives rise to the emergence of various spurious companies and many malpractices in the capital markets have badly affected the marketing activities of financial service sector.
- Increased competition from global and domestic players threatening the survival of many industries.
- Integration with global market and growing volumes of financial transactions
- Coping with the advanced information technology in the marketing functions
- High level of volatility of the financial market
- Increased customer demands and sophistication of markets and customers
- Coping with fast growing rate of IT, communication and multimedia.

### **New Age Marketing Strategies**

The basic nature of financial services i.e., intangibility and inseparability from the provider creates many a hurdle for the service marketers. Intangibility makes it difficult for the provider to communicate to customers in very precise terms. It also poses problems for the customers as they find it difficult to differentiate and evaluate the services of various providers. In order to create a distinction in the market, the players have to perform three major tasks.

### **Designing Services Strategy**

It is aimed at building credibility and professional relationship among the customers. Credibility is built over a period of time by way of fulfilling the promises through competitive performance.



**Fig - 1**

Professional relationship can be maintained with the customer offering quality service to them.

### **Tangibilisation of Services**

The customers do not see or touch anything to decide before buying the services. In order to create enough transactional trust in the investors, the firm has to tangibilise its services in the following ways.

- Providing accurate, timely and regular information to the customers through IT enabled services (Email, Websites etc.)
- Sending the proof of performance regularly by way of bulletins, reports, letters etc.
- Providing membership ID number to the customers.
- Providing pleasant, professional ambience at the service counters.

### **Developing Service System**

The success of financial services industry depends on the perception of the investors with regard to the firm. The firm should have a robust, reliable and user-friendly system. The service system consists of two parts:

a) *Operating system (Back office)*

Operating system means internal function of the industry for achieving guaranteed and consistent performance as promised to the customers.

b) *Delivery system (Front office)*

Delivery system refers to an appropriate use of people, equipment and technology to serve the specific needs of the customers and to satisfy the customers and building the long lasting customer relationships.

### **Elements of Financial Services Marketing**

In the formulation of overall marketing strategies of financial services industry, the following decisions are considered significant in the liberalized business environment.

• *Product Planning*

The financial companies should aim at creating new generic products as per customer needs. Creation of attractive schemes has to be coupled with efficient delivery to optimize customer satisfaction. It is always better to bring modification in the existing products by adding some new features and elimination of outdated products. In the competitive market, the task of selling is found tougher since the core products are the same. This necessitates product differentiation. There should be different products in the arrays of the company, so that company can cater to the needs of different groups of the investors/customers. For designing and developing a new product one should take the help of market research to assess the needs of the customers, availability of existing product and future growth in demand.

• *Selection of suitable place*

This involves searching of suitable places for offering the services. That is, locating the branch at a sensitive point, which is accessible to the actual and potential customers for activating the business. The important considerations while making location decisions are availability of transportation, parking, communication, electricity and other necessary facilities for the smooth functioning and convenient disposal.

• *Pricing policy*

The potential customers generally frame their investment strategies in the background of pricing decision. The price takes different dimension depending upon the type of financial services. Price of financial services are always linked with return. For an insurance company the price means the premium, for bank it is rate of interest and for mutual funds it is net asset value. However, while deciding pricing, other factors like incentives, brokerage, agency commission are also to be decided in advance because the expenses towards these items will affect the ultimate returns to the investors. In all cases only the competitive price and the promised return catch the sentiments of the customers.

• *Branding*

Brand name (scheme name) very often signifies the market segments, inherent benefits and investment objectives and also customers' loyalty. This process consists of selection of product name, designing brand policy like individual, family or corporate brand.

• *Customer service*

Marketing of services is significantly influenced by the quality of service and

interpersonal relationship between customers and service organization. How and in what manner they offer services to the customers assume a place of significance, especially to motivate the potential customers. Market orientation of product and customer orientation of servicing are the two key factors in the competitive world of financial services. Prompt and timely service as per the customers need would make a distinct difference. The personal touch in service has shown positive results in recent times. The quality of the services offered in turn helps to develop loyalty among the customers. Services can be provided either directly by the company through service department or through intermediaries like registrars or external agencies. Customers are involved in a very real relationship with the company, and even one weak link can significantly damage their trust. In other words, the demeanor and behavior of the service personnel at all levels play an important role in shaping customer satisfaction

#### •Market segmentation

The financial service industries are expected to satisfy various categories such as the rural and urban customers, small and large scale entrepreneurs, high-earning and low-earning customers, retail and institutional customers etc. This makes the task of assessing the needs of customers a bit difficult. Here the segmentation of market-based on the changing needs of customers is considered to be the finest solution. Identification of market segments is crucial to take further action regarding promotion and distribution of the product. Market segments will be identified on the basis of nature of the product, direct and

indirect benefits of the product on the one hand and behaviour or attitude of the customers, product usage rate etc on the other hand. If the segment-wise formulation of marketing policies and techniques is right, the task of satisfying the customers would be easier. Here market research plays an important role to identify all these factors and plan appropriate distribution and promotion policy.

#### •Distribution policy

The determination of proper channel to be used for selling the product is also a key issue in the marketing of financial product. Before launching of a product, there should be clear cut idea about channel of distribution of the product to make it accessible to the ultimate customer. The channels reach direct to the customer or through intermediaries like agents, brokers or franchises should be determined based on the internal marketing strength of the organization.

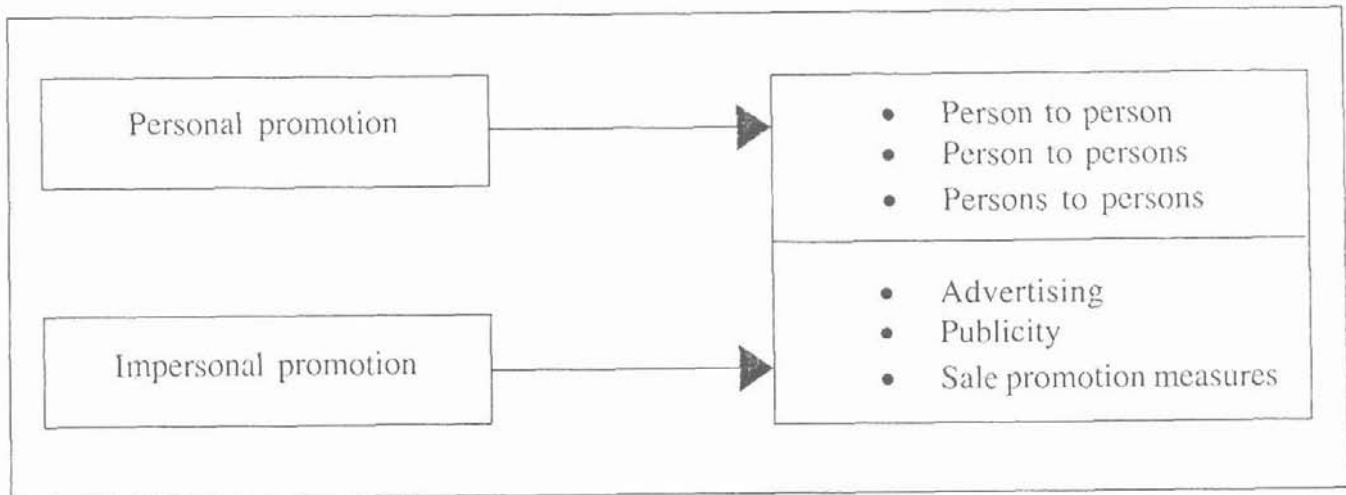
#### •Promotional policy

In order to promote the business in highly competitive world, it is the time to develop creative promotional tool kits so that impulse buying is stimulated among the potential customers. The promoting of sale may be through advertisement, road shows, personal finance shows and contests. The various promotional tools used by the major players are given in Fig.2.

### **Managing Market Information System**

In the modern business world, the MIS is in close touch with the day-to-day developments. The financial services need information regarding potentiality, profitability, competition and socio-economic condition.

Fig - 2



There are numerous measures and sources for collecting information at different levels. Depending upon the need, suitable sources can be used to tap the relevant information for marketing plans. The information so collected should be used immediately in the marketing activities, as the flow of the

information is free in the market, otherwise the competitor may use the same and take the advantage. Hence the marketing information should be processed instantly and implemented quickly. The reliability of the marketing information should always be cautiously looked into at every stage while implementing.

Fig - 3

MISLEVEL	USES
At branch level	<ul style="list-style-type: none"> <li>▶ Effective execution of market plans to know the changing expectation of the customers</li> </ul>
At regional level	<ul style="list-style-type: none"> <li>▶ Regional planning, implementation and review of the situations</li> </ul>
At corporate level	<ul style="list-style-type: none"> <li>▶ Corporate planning</li> <li>▶ Setting of business objectives and goals</li> <li>▶ Identification of profitable market</li> <li>▶ Diagnosing the emerging trends in competition</li> <li>▶ Knowing the position of the competitors</li> <li>▶ To expand and diversify the business</li> <li>▶ To project a fair image of the company</li> <li>▶ Reviewing the market plans</li> </ul>



Fig - 4

Information	Sources
Primary	Internal market research, Survey, Personal contact, Telephone contact, Mail questionnaire, Seminars, Group interviewing etc.
Secondary	Experts opinion, National dailies, Trade association, Chamber of commerce, Reports of Union and State governments, Corporate results or reports, Reports of other agencies like RBI, CRISIL and CIME.

An effective marketing intelligence system should essentially be practised by the executives of the financial service industries to obtain everyday information about important developments in the marketing environment to enable them to make day-to-day scanning of the environment. The scanning of the market environment can be made by reading business related books, newspapers, trade publications and by talking to the users of services. The executives have to be trained in an effective way in this regard and are to be motivated to spot and report new developments.

### **Financial Product Advertising**

Financial advertising is a very useful tool for promotion of financial products to persuade the new breed of investor to bring his money into the market. Financial advertising can distinguish the financial products of the company from those of its competitors. It has to be noted that financial advertising should adhere to certain guidelines issued by the regulatory authority. Financial market displays trends towards two types of advertising.

#### *1. Corporate awareness advertising:*

It is done by the companies so that the prospective and existing customers will feel comfortable with the product they are using and also help to differentiate a product through building a brand personality.

#### *2. Product advertising:*

Advertising specific features, benefits, and other relevant information of a particular product to induce the investors.

In India, as the investor is still new to the gamut of many new financial products and services being offered to him, the task of promotion has become much more challenging and exiting.

### **Branding of Financial Services**

Brand identity is an important marketing factor, which facilitates product identification at the market place. Brand is a broad term that includes practically all means of identifying a product by way of 'logo' or 'punch lines' or product names. Brand name is that part of the brand which can be verbalized where as brand mark is that part of brand which can be recognized.

The technique of branding is of two types:

1. Individual branding-which is exclusive to the product under consideration.
2. Umbrella branding-is practice of labeling more than one product with a single brand name. (UTI's MIPs, Dhanavarsha series of LIC MF etc). Here due care has to be taken to avoid the name repetition of the brand which otherwise leads to confusion to the investor.

In India, most of the products are linked to the names of their company (LIC MF Bond Fund, Can Star and ULIPs). This technique is always advantageous for product identification, which in turn helps to build the company's corporate image. Brands command customer loyalty for the product. Financial products aim at attracting the investor to bring his savings into the market. Most of the financial products available in the market are very similar in nature. This is where the advantages of branding can be exploited. Branding can help in creating product differentiation and also create a distinctive product identity.

Developing a brand requires a great deal of long-term investment, especially advertising and promotion. It is a quite expensive proposition and hence is worth for long-term plans like bank's schemes or mutual fund schemes.

### **Emerging Functions in marketing of Financial Services**

The following are the emerging functions in marketing of financial service industries and having greater significance in this competitive market.

#### *1.Product development*

- To assess the potential for retail asset business based on market feed back and to enhance existing products or develop new products.
- To monitor and deliver profitability for each product line

#### *2.Channel management*

- To identify third party agencies such as direct sales agents, collection agents, verification agencies and finalise terms and conditions, responsibilities and pricing with each agency.
- To monitor the performance of these agencies on an ongoing basis and ensuring a high quality channel operation over time.

#### *3.Appraisal management*

- To scrutinize and recommend approval or rejection of retail loan proposal received from branches by way of credit scoring system and sound judgment.

#### *4.Territory sales management*

- To build the retail asset business in liaison with direct selling agents and branch heads in order to achieve the business target for the region.
- To identify and recommend suitable third party agencies for marketing, collection and verification in their area of operations as well as to ensure quality of the credit portfolio and to follow up delinquent cases.

#### *5.Branch management*

- To achieve the business target of the branch with a predominantly retail business focus.

## 6.Brand management

- To develop strong brand name for the product and corporate image for the company through various innovative devices.

## Conclusion

Today's financial services industries require new strategies to survive and continue to operate. They have to adopt new marketing strategies and tactics which enable them to capture the maximum opportunities with the lowest risks in order to enable them to survive and meet the tough competition from global players of domestic and foreign origin.

## References

Agrawal,M.L.. "Marketing of Services: Concept & Application (IGNOU)" *Branding & Advertising of Financial Services*.

Avadhani, V.A.. "Marketing of Financial Service," *Mumbai: Himalaya Publishing House*.

"Changing Trends in Indian Banking", *Business Today* May 2001.

<http://www.pma.philonline.com/bpi.htm>

Ramdas,R.. "Marketing of Services: Concept & Application(IGNOU)" *Marketing of Financial Services: Indian Scene*.

Sadak, H.. *Mutual Funds in India Marketing Strategies & Investment Practices*., New Delhi: Response Books, 1997.

Sankar, Ravi "Portfolio Management Services," *Service Marketing Indian Experience* New Delhi: South Asia Publication, 1999.

Jha,S.M.. *SERVICES MARKETING* Bombay: Himalaya Publishing House.

"Tomorrow's leading retail banks" *ICFAI Reader* April, 1999.



# Panorama 2004-Performance with éclat-A Report

Ms.Sudha Moosad

There was a time when one associated workshops with boring talks and long discussions. One talked and the others listened! And in such workshops in colleges, only the concerned department and class would be involved. Any form of 'having a good time' was only during the cultural fests. But over the years, it has changed and how!!

Talk of a workshop today and it's the students who are the most excited. In fact, most B-schools and professional colleges are adding a festive colour to their conventions and conferences. There is the song and dance. But it comes after some interactive and hectic talk sessions.

Panorama 2004 had all that and more. The two-day annual management convention of the School of Communication and Management Studies (SCMS) had renowned experts and management gurus on one platform. Six sessions and fifteen speakers spread over two days on October 1 and 2 at the SCMS new campus at Muttom, Alwaye, Kochi.

The University Grants Commission Vice Chairman Dr.V.N.Rajasekharan Pillai inaugurated the two-day convention with the lighting of lamp. In his inaugural address, he spoke of the knowledge revolution that is taking place. "The very purpose of education, particularly higher education, is the enhancement of the quality of life and life-management systems," he observed. Effective management and optimal utilization of human potential as well as natural resources by proper use of innovations and inventions in technology form the core of management education, Dr.Pillai opined.

The Chairman of the SCMS group of educational institutions, Dr.G.P.C.Nayar expressed his happiness at being able to conduct the convention at the new campus. He said that it has been a dream-come-true to make SCMS, the largest B-school in India in terms of infrastructure and faculty. The new campus will have 48 classrooms, a library with 30,000 books, two computer centers with about 400 computers and a CC-TV with many more facilities.

The inaugural session called 'Session de Chidabaram' focussed entirely on the financial scenario. The first speaker was Mr Cherian Varghese, GM-All India Operations, ITI Financial Services. He spoke about effective presentation, hedge funding, India shining, India Inc and the recent trends in the Indian stock markets. He said that while making a presentation, 'make the audience believe in you by providing a convincing reason.' Mr Praveen C, Business Development Manager, HDFC Mutual Funds Ltd. gave a talk on 'Mutual Funds- The Indian Scenario.' He listed the key challenges facing investment management firms globally. There is a constant confusion among the customers on 'Where do I go to make my money grow?' Speaking on 'Retail Banking-A paradigm shift,' Mr Subhashish Acharya, Zonal Head (North-RLG), ICICI Bank Pvt Ltd. said that retail banking remains the key driver and the focus of banks apart from becoming techno-friendly has shifted to marketing.

The second session talk was on 'Corporate Governance-A leadership perspective' by Mr.A. Thothathri Raman, Consulting Editor, Business India. He said that the governance

concerns conscious good behaviour by the corporations ensured, not by legislation but by internal voluntary maintenance. He observed that no board, no shareholder and no employee forum could ensure good governance, if the leader decides otherwise quoting the case of Enron. Speaking on 'TCS-A Corporate Entity,' Dr.Raman Srinivasan, Global Divisional Head-Program Planning & Evaluation, TCS explained that their biggest asset is the best-trained people: "We invest four per cent of our annual turnover on training." Mr.M.P.Sundar, Sr.Corporate Manager Wipro Technologies whose topic was 'Building Strong Brands', spoke on the basics of Branding, Corporate Branding and the trends across strong brands.

Day two began with the first session-'Through the corridors of HR' with 'Globalisation and change in HR needs' by Mr.A.Aravamudhan, Executive VP Lucas, TVS. He opined that what we face today is knowledge economy. 'To have a competitive edge, people are the core.' Speaking on 'Competitive at work', Mr.T.Suresh, Associate VP-HR, TAFE India Ltd, said that competence is often misinterpreted, misunderstood and controversial.

On a topic that could be of interest to many was the presentation by Ms.Surabhi Nikumbha Singh, HR Advisor, ABN Amro-View Point on 'MBA's role in BPO.' She explained that BPOs will employ over two million people directly by 2008 and will generate indirect employment for an additional two million people.

The second session was on 'Boom or bust the IT scenario.' Information Technology-The Global Scene, was what Dr.Ravi Mittal of IBM Global spoke about. He said that the constantly changing environment requires constant improvement in business design and business process. Mr.S.Sunder,

Sr.Manager, Networks, Infosys Ltd., spoke on the 'Role of IT in today's business.' He reflected on the role of networking in the information sector. Mr. Niketh Sunder, Head of HR US Software, talked on 'Current HR needs of the IT industry' and of the IT industry's expectation and the HR perspective. Mr.Vijay Menon, Associate Director, Nagarjuna Competency Development Services, also a visiting faculty to SCMS spoke on 'HR based organizational transformation for the future.' He drew comparisons between HR management essentials with the three metaphors of life as in context with the Charles Darwin theory. Mr. Ganesh Anathanarayan, ASM, UNI Lever speaking on the 'Emerging Trends in Retailing' emphasized on the enhancement of low cost economy super markets to high cost economy as in high markets and in cash and carry sectors. The last guest speaker of the day was Mr. Sajiv Nair, Director, Right Attitude Success Systems, Dubai. In his presentation on 'New Marketing Dynamics', he opined that the only permanent thing in this world is change.

Interestingly, all the sessions ended with presentations by the management students. And those were by themselves an eye-opener for the guest speakers. They got to see a glimpse of the talent of the new generation managers. There were presentations by the Finance Forum, Marketing Grid, SSTM, Catch 22 and the HR Clan. The two-day convention was followed by the valedictory function with closing remarks by the SCMS Chairman Dr.G.P.C.Nayar, and the valedictory address by Mr.N.Sreekumar, Vice-President and CEO, Apollo Tyres.

The final curtains came down with a presentation by the students of PGDM on their 'An experience called SCMS.'

# Inaugural Address - Management Education Perspectives

Dr. V.N. Rajasekharan Pillai

Vice Chairman, University Grants Commission



We are living in an era of profound and widespread social and cultural change. Rapid changes are taking place in social, political, industrial and cultural institutions. There occurs massive restructuring of work, employment and industry. Identity and

aspirations shift swiftly. The knowledge revolution is taking place. Technologies change in an unimaginable speed. Globalization is the order of the day. Along with globalization, fragmentation and division are also taking place. New forms and expressions of citizenship emerge. Proper management of varied systems in these contexts is a real challenge. The very purpose of education and particularly higher education is the enhancement of the quality of life and life-management systems. All human operations lie within this large framework.

The precept and practice of management depend on what is happening to the world of work. Major structural changes in industries and occupations are taking place. There is a demand for new specific and generic skills in relation to human resource development. Challenges of greater competitiveness, technological change and globalization need to be faced by everybody. New sorts of work place emerge. They are characterized by task and project management oriented fuzzy boundaries. There are no more jobs for life. All need to switch occupation and career several times in a working life. There is a need for workers

to be flexible, responsive and creative. There is stress everywhere and getting work-life balance right is a real task.

Understanding of the information age and its ramifications is unavoidable for a prospective high quality manager. There is a rapid spread of new technologies. Newer and newer global communication networks emerge. Knowledge-based industries expand rapidly. With the advent of intelligent information systems, new ways and skills of information handling have to be resorted to. We have to delineate the characteristics of the fluid and changing communities. There is greater emphasis on culture, leisure and creativity. Tapping of the new sources of information and knowledge is absolutely necessary for timely management of systems.

The learning citizens for the 21st century need to be comfortable with own identity; with confidence and self-esteem. High levels of technical skills and competences need to be developed. They have to be curious, inquisitive and eager to explore. Creative, inventive and innovative aptitudes need to be nurtured. The learning citizen for the 21st century had to be tolerant of 'difference,' open and accommodative to the experiences of 'other.' A sense of self and society, independent and cooperative, has to be imbibed. Skills to shuffle back and forth between ideas and conceptions data, evidence and experience are necessary. Critical and analytical thinking including auto-critique is necessary for effective management, development and growth. Having learned to learn, it is imperative to develop the culture of knowing 'how to know.' You should have the confidence to swift, evaluate, review and synthesize. You have to be a learner, teacher and practitioner at the same time.



The challenges confronting business management education is creating a pool of managerial human resources in the present global context are manifold. Effective management and optimal utilization of human potential as well as natural resources by proper use of innovations and inventions in technology is the core of management education. In this context it would be interesting to glance through human history and see how technology has impacted society and enabled new professions to emerge.

Over 400,000 years ago, Homo Sapiens the wise men, were hunters who were struggling every day to make both ends meet, managing their survival with the help of Paleolithic stone tools. They were jack-of-all-trades, about 10,000 years ago. With the invention of farming technology, man learnt to live in permanent settlements and differentiated their roles such as village leaders, farmers, artisans and craftsmen in order to manage the community. 5000 years ago, a few human settlements emerged as towns and cities, which gave rise to new roles including those of traders and administrators. To manage the nascent state, two other professions evolved—one of bureaucrats to administer and other of security personnel to manage law and order within and across the territorial boundary. This was the beginning of the bureaucracy and defense as an organization. It was only 300 years ago with the invention of steam engine and electricity, several specialized professions of technicians, operators and entrepreneurs emerged. And, towards the end of the last century, groups with specialized know-how carved the professions of engineers, doctors, lawyers, accountants, architects, and the like. This was triggered by a series of technological innovations in the field of automobile, aviation, wireless radio and land based telephone. It is only during the last 50 years, that we have witnessed far-reaching innovations in quick succession. The space technology, which has helped us to place

man on the moon, computer that has enlarged our brainpower, fax, mobile telephones, supersonic aircrafts have enhanced our ability to communicate across space and make fast decisions that have enhanced our competencies in managing complex global organizations.

These developments have given new identity to management profession and charged it with the task of enhancing performance and ensuring results in corporate enterprises. Although management professionals have largely worked with corporate enterprises, they have since successfully engaged in other areas such as service industry, public institutions including those of Government. During the last decade, innovations in information technology, satellite communication and internet have further sharpened the role of manager as a global manager, as a virtual manager, managing virtual organizations sitting on the desk communicating through internet, seeing things on the computer screen and communicating through audio/video technology. Although the advancement in technology has led to management as a profession, it is during the past decade that management has received the pride of the place in our country. There is a growing recognition that management is the key to development and we are underdeveloped because we are under-managed or over-managed.

Management education in India, about 50 years old, began as a part-time education for practicing executives. Later in 1962 when the Government of India established India Institutes of Management at Calcutta and Ahmedabad in collaboration with the Sloan School of Management, MIT and the Harvard Business School respectively, fulltime postgraduate education in management was launched in India. Now over 150 university departments of management are functioning in the country. Another IIM was established at Lucknow in 1986 and as of now, we are close to nine

hundred institutions of higher education in management in India.

In the last decade, MBA programs have registered 800 per cent growth, but PhD in Management a meager four per cent growth in the country. No wonder we have real shortage of qualified faculty in B-Schools. This is however not peculiar to India. There has been rapid growth of higher education in management around the world, more particularly in Europe and Asia. The United States has currently over 1600 B-Schools, producing 100,000 MBAs every year. Management education industry is 8000 billion dollar industry in USA. Economists believe the growth in management education is a barometer of growth in economy. If this is so, in India we have to await good turns in foreseeable future.

In the recent past, Indian business has witnessed unprecedented change, partly under pressure of globalization of economics, largely because of the policy shift from regulation to de-regulation from state control to private initiative, from domestic focus to global focus. This change fueled by IT, Internet, and genuine recognition of human capital as the driver of new economy has triggered paradigm shift in management education.

Globalization made us aware that in today's world, economy has to be truly global and national borders are less important than in the past. It has caused Business Schools to look at International Business, focus on producing graduates with global mindsets and to develop links with Schools overseas. So far, B-Schools have been concerned with profits and productivity costs and competitiveness; in the globalize economy MBA's would have to learn the value of brand and intellectual property and patents which will drive corporate growth. Encouraging students to go overseas and welcoming foreign students for short stints have surfaced as new strategies for making

Indian B-Schools, global. Although Indian Business Schools are still in the early stage of globalization, there are trends to get them globalised.

Emergence of Disruptive Technology, advances in computer technology, communication platforms and Internet have directly impacted on business education. IT education has become apart of management education. Internet is becoming a valuable aid to sourcing information and most business schools are providing Internet access to their students. New learning platforms have given rise to more effective teaching pedagogy by integrating audio, video and web-based education; moving towards e learning. Internet is altering the traditional models of education delivery, promoting interactive communication and development if new software to make it possible.

The knowledge economy has brought to the forefront the importance of human capital. While finance and operations, marketing and MIS remain critical to management learning, it is recognized that people's skills are becoming paramount in management education. Leadership, team work, entrepreneurship, risk taking and conflict management attitude and motivation, service orientation and change mind set are emerging a centerpiece of curriculum for imparting effective management education in this fast changing world.

Changing business landscape has resulted in a major shift from manufacturing to service economy. Many believe that India should bypass manufacturing and focus on service and knowledge economy alone. Some Business Schools are also undermining manufacturing and operations curriculum. Technology will automate many routine jobs and computer is emerging as an important tool for effective management of operations.



Dr. Swamy at Seminar

## “Financial Sector Viability for Fast Growth in India and China” - A Synoptic Account

Merry Ann George  
First Year PGDM, SCMS, Cochin

Dr. Swamy spoke on "Financial Sector Viability for Fast Growth in India and China." It was an intellectually stimulating experience for the audience. Dr. Swamy conjured up contrasting scenes of India and Chinese economy. The focus was on the economic sustainability of these countries. Dr. Swamy sounded notes of optimism on Indian scenario, keeping financial sustainability in his mind. He argued that the democratic status of India will act as a strong pillar. It will surely contribute to be the transparency and sustainability of the country's economic growth.

In China the strict communist regime has endorsed its economic policies adhering to its political motives. The entire foreign direct investment is canalized towards infrastructural development, which reflects upon cities like Shanghai in Beijing. On the other hand, the interior China is still virgin. He predicted a deadlock in next four to five years owing to stagnancy of China's economy. The public sector in China is still marred by red tapeism and communism, which make it susceptible to slow growth and corruption. Shifting his focus on India, he, emphasized in his natural humorous touch, observed: "what India needs at present is a crisis." He welcomed such a crisis and believed with conviction that it would be good in the longer run.

Dr. Swamy highlighted some innovative policies like abolition of income tax to invoke public belief and support. He aired his fury on the deep-rooted corruption, which had settled in Government Income tax offices and similar other scores of them alike, and the unholy nexus of politicians involved in it. He gave a classic example of Chennai, to substantiate what was wrong with India. In Chennai, seawater could be harvested to overcome the drastic water shortage. But, since this idea was not palatable to the gang of politicians and water suppliers, it did not get assent from the government.

He also gave some interesting facts and figures: 25 per cent was the revenue that we could manage from the public resources, whereas 26 per cent of the National Income was the amount we paid as interest. This led to a deadlock in the Balance of Payments. He also noted a developmental lag in Kerala due to communism and single-track attitude of the people.

In the end, he invited all the listeners for an open debate on important issues. Dr. Swamy at Seminar was a very memorable learning experience for all, and the day 15 October 2004 will remain for all of us, a day to chew the cud of good food for thought.

# Gleanings from the Annals of Archive

## Running the risk

**Vikash Kumar Sinha**

Final Year PGDM (Finance), SCMS, Cochin

It's good to take risks-if you manage them well.

Risk is a fact of business life. Taking and managing risk is part of what companies must do to create profits and shareholder value. But the corporate meltdowns of recent years suggest that many companies neither manage risk well nor fully understand the risks they are taking. Moreover, every second companies were struck at least once, and some more frequently, by a severe risk event. Such events are thus a reality that management must deal with rather than an unlikely "tail event."

We define corporate risk broadly to include any event that might push a company's financial performance below expectations. Typically, the measure used is capital at risk, earnings at risk, or cash flow at risk, depending upon whether the focus is on the balance sheet, the income statement, or cash flows.

To manage risk properly, companies must first understand what risks they are taking. To do so, the onus is on the top management to make major risks factors transparent and to define the types and amounts of risk they are willing to take. Although these steps will go a long way toward improving corporate risk management, companies must also go beyond formal controls to develop a culture in which all managers

automatically look at both risks and returns. Rewards should be based on an individual's risk-adjusted-not simply financial-performance.

High concentrations of risk aren't necessarily bad. Everything depends on the company's appetite for it and how articulate they are in formulating the right strategy. Formulating such a strategy is one of the most important activities a company should undertake. Defining these elements provides clarity and direction for business-unit managers who are trying to align their strategies with the overall corporate strategy while making risk-return trade-offs.

To create a risk culture, companies need a formal, company-wide process to review risk, with each business unit developing its own risk profile that is then aggregated by the corporate center. The reviews are a way of ensuring that managers at every level understand the key risk issues and how they should be dealt with. Drawing up a monthly heat map is one way of establishing a formal risk-review process.

Finally, to convey the message that the potential downside of every decision must be considered as carefully as the potential rewards, CEOs should be heard talking about risk as often as they talk about markets or customers. The CEOs' open recognition of the importance of good risk management will influence the organisational culture.

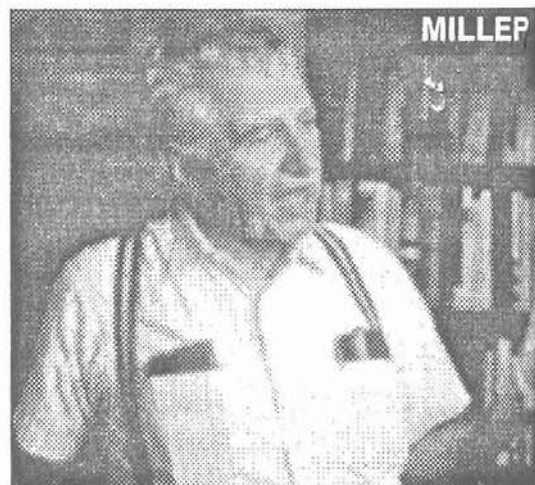
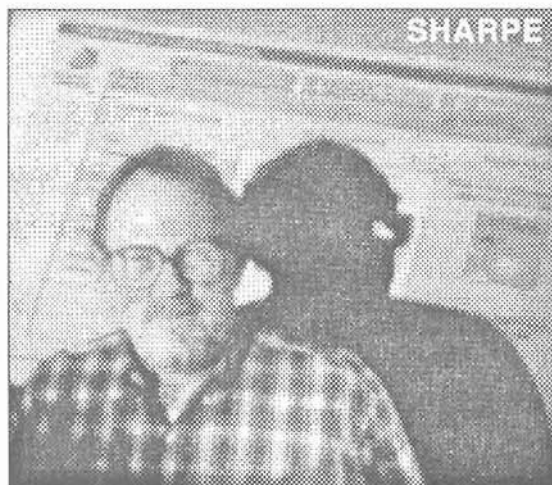
*Source : The McKinsey Quarterly Journal October 2003)*

## The Midas Touch

**Sandeep R.Krishnan, Vikash Kumar Sinha  
and Jeslin J.Narikulam**

Final Year PGDM (Finance), SCMS, Cochin

The contributions of the Nobel trio-Harry Markowitz, William Sharpe and Merton Miller have changed the way investors and managers used to think about markets, money management, and securities design. The concepts that are used today and accepted globally for investing and corporate finance can be traced back to the research they did in the 1950s and '60s which won them the Nobel price for economics in 1990.



Markowitz, a self described nerd whose father was a Chicago grocer. In 1952, the University of Chicago *Economist* published a fourteen-page paper called "Portfolio Selection." According to the university dean, he called it "the most famous insight in the history of modern finance" - the idea of diversifying a portfolio of stock in order to produce the maximum potential returns given the amount of risk an investor is prepared to take on. Of course, the notion of not putting all one's eggs in the same basket had been a truism for centuries. Markowitz proved why this is so by explaining the fundamental trade-offs between risk and return and between asset concentration and diversification. Money

managers around the world still follow his precepts daily.

Sharpe, a charming but sometimes-blunt computer whiz, devised the capital asset pricing model (CAPM), which quantified the idea that investors demand extra returns for taking on more risk. Souped-up versions of the CAPM are still used widely in business to guide investment decisions.

Miller, a passionate defender of futures markets, developed, with Franco Modigliani, the MM Proposition. They showed that any company's worth depends on its earning

power rather than its book value. So, if there's a tax break on interest payments, savvy companies should favor debt over equity. That insight was a real shocker to a Wall Street steeped in the cult of the equity. It provided the intellectual heft that led to the surge in the junk bond market in the 70's.

Now a new generation of financial economists is challenging the work of Miller, Sharpe, and Markowitz, often improving on it. But it's the Nobel trio who helped turbo charge global capital markets.

*Source: Business Week, Anniversary Issue-October 11 2004.*



## Protean Strategies

Samuel Harris T.

Final Year PGDM (Finance), SCMS, Cochin

Businesses are in the midst of a fundamental transformation, which in turn has brought various challenges to an organization that demands certain changes in the way organization value its resources. In this context, not only has human resource replaced land, capital and raw materials as the primary source of competitive advantage, but also the goals and expectations of that human resource have shifted. Competitive advantage lies not just in differentiating a product or service or in becoming the low cost leader but in also being able to unleash the company's special skills or core competencies and rapidly respond to customer's needs and competitor's moves. This being the case in many organizations human resource is being viewed as a source of competitive advantage.

Strategic human resource management has been defined as 'the linking of human resources with strategic goals and objectives in order to improve business performance and develop organizational culture that foster innovation and flexibility.' There is a greater recognition for distinctive competencies that are obtained through highly developed employee skills, flexible organizational cultures, innovative management processes and systems. Increasingly it is being recognized that competitive advantage can be obtained with a high quality workforce that enables organizations to compete on the basis of market responsiveness, product and service quality, differentiated products and technological innovation.

*"Human Resource management has now become a function that plays a role of key business partner, reengineering organizations to survive and thrive in the competitive marketplace, by way of implementing innovative systems to bring the best out of the workforce."*

Within this environment, the HR manager

performs the role of strategic business partner by being a change agent and an employee advocate.

The constant evaluation of the effectiveness of the organization results in the need for the HR professional to frequently champion change. Both knowledge about and the ability to execute successful change strategies make the HR professional exceptionally valued. Knowing how to link change to the strategic needs of the organization will minimize employee dissatisfaction and resistance to change. The HR professional contributes to the organization by constantly assessing the effectiveness of the HR function. He also sponsors change in other departments and in work practices. To promote the overall success of his organization, he champions the identification of the organizational mission, vision, values, goals, and action plans. Finally, he helps determine the measures that will tell his organization how well it is succeeding in all of this.

The advocacy includes expertise in creating a work environment in which people will be motivated to give their best. Fostering effective methods of goal setting, communication, and empowerment through responsibility build employee ownership of the enterprise. The HR professional helps establish the organizational culture and climate in which people have the competency, concern, and commitment to serve customers well. The HR manager provides employee development opportunities, employee assistance programs, gain sharing and profit-sharing strategies, organization development interventions, due process approaches to problem solving, and regularly scheduled communication opportunities.

In brief, strategic perspective of HRM requires simultaneous consideration of both external and internal requirement that lead to superior performance of the firm.

Source: <http://www.humanlinks.com/manres/articles/shrm.htm>.



# Is Customer the King in Retail Banking?

Finance Forum  
(SCMS, Cochin)

*This is a report based on the study conducted by the Finance Forum of SCMS under the guidance of the author (Prof. Filomina P. George) The findings of the study are based on the response obtained from 750 customers of 38 different banks operating in the city of Kochi- the banking hub of Kerala. Customer expectations are changing. In the marathon race of harnessing customer expectations with variety products and services, certain categories of banks are still lagging behind. Not any one bank is able to fully satisfy a customer. This has resulted in multiple banking.*

*Special acknowledgement to Dr. Mukunda Das, the Director of SCMS for the motivation and to the team of students who assisted in the endeavor and the core team who worked tirelessly for the completion of the study.*

The financial services industry in India is running a marathon race and the commercial banks have also joined the team. The recent hype in retail banking supported by the integrated information system has set the customer changing his banking habits and vice versa. Within less than five to seven years of retail banking the new generation banks along with a few foreign banks have changed the aura of banking in Kochi even to an average customer.

A survey was conducted by the Finance Forum of SCMS Kochi, on "Customer's Expectations of retail banks." It reveals that the "metro morphosis" has circumvented Kochinites in their banking habits also. 750 people in the age group 22-68 were interviewed in Kochi during the third week of September 2004, by an SCMS team. They were retail customers of 38 different banks in the city of Kochi. Both Private and Public Sector Banks (PSBs) were covered. Private banks were further

classified into Old generation, New generation and Foreign banks and PSBs into SBI group and Other PSBs.

The age profile: The average age of the customers in Kochi is 38 years. This includes 22 years old student and the 68 years old senior citizen. The age profile differs for different categories of banks as shown in Table 1.

A discriminant analysis reveals that age and income levels influence the choice between a new generation bank and a traditional bank and age has greater significance. These days people start banking at a very early age-even at around twenty. They get fancied by the plethora of newly styled products and services offered by the new banks. With the blooming of the new generation banks and foreign banks, the new life styled and techno- savvy young generation of Kochi are increasingly finding their place on the customer list of such banks. "Catch them young" seems to be the philosophy of the new and foreign banks. The banking habits



**Table-1**  
**The age profile**

Category of bank		Below 40 years	Above 40 years
Private	Foreign	74 %	26%
	New generation	72%	28%
	Old generation Pvt banks	68%	32%
PSBs	SBI group	68%	32%
	Other PSBs	59%	41%
Overall		66%	34%

**Table-2**  
**The customer profile**

Type of Bank	Professionals	Business	Govt. employed	Other employed
Private banks	48%	28%	10%	14%
PSBs	37%	29%	22%	12%

of their customers seem to be different from that of the older generation banks.

The customer profile of the various categories in terms of occupation is also significantly different for various categories of banks (Table-2).

Further more than 60 per cent of the professionals and 53 per cent of the business class bank with Private sector banks. They are very conscious of the liberalized and modernized banking scenario and the prevailing competitive market. Their expectations of banking are very high.

Both Private and Public sector banks have their solid presence in Retail banking in Kochi, with the New Generation Banks holding the single largest (30%) market share. Of the total 750 more than 65 per cent were banking with new generation or foreign banks.

Banks, on the other hand, are indeed eager to deliver diversified products and services to match the ever-changing expectations of the customers. They are trying to design and deliver products, which should match the customers' expectations. They think

they are flexible and care to design the products to suit the customers' needs. "We look for a long term relation with customer, the more a customer is with us, the more loyal he/she is" said one of the Bank Managers of the old generation private banks. However the survey found the perception of the customers was quite different.

Customer satisfaction, customer loyalty and customer retention are believed to be three important pillars on which any service organization is built on. By simply delivering variety of products does not guarantee a satisfied customer. Not to many, the variety of products was the exclusive reason for choosing a particular bank. Faster service, customer friendliness, accessibility are other prime considerations.

On correlating the satisfaction of services with that of the product, a strong relationship was seen. With product differences disappearing customer retention

Fig.-1

## FASTER SERVICE

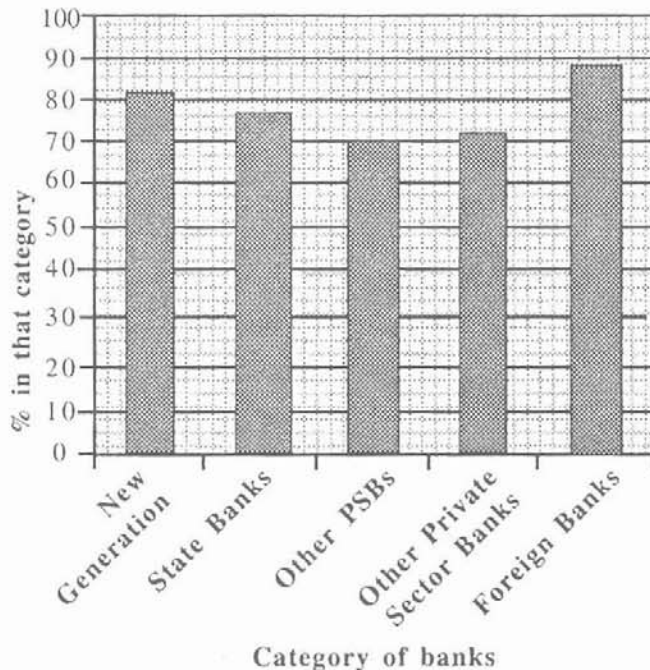
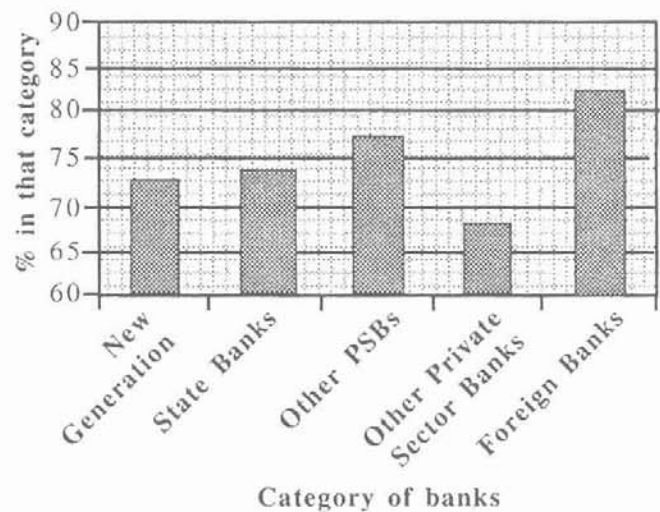


Fig.-2

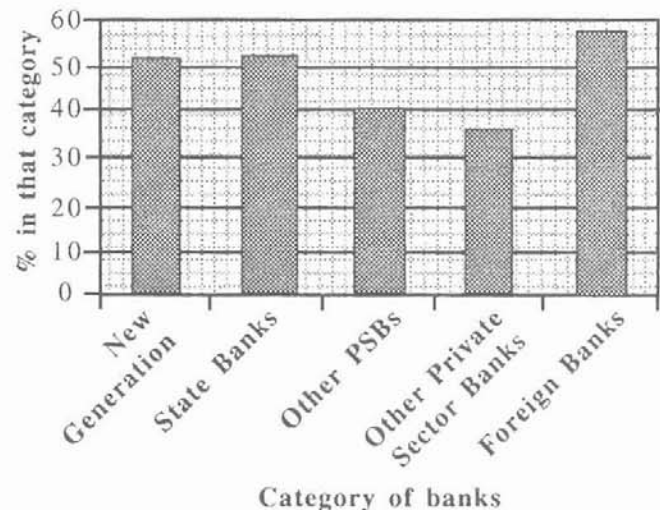
## CUSTOMER FRIENDLINESS



will highly depend on rendering of the services to the best satisfaction of the customers. The customer derives more satisfaction from the service provided. According to the results of the survey, the old generation private banks are the least preferred in terms of the delivery of services. Their customers have the lowest level of satisfaction. They are graded lowest in the variety of products and they are the

Fig.-3

## VARIETY OF PRODUCTS



least customer friendly too amongst the various categories of banks

The new delivery themes of 'anywhere banking' and 'Anytime banking' are very much welcomed by the customers. Use of ATM facility has become very common with as much as (93 per cent) amongst the young customers and as high as 75 per cent for the above 60 age group. The age group (>40 years) were also driven by the near and convenient bank. However they also value the type of service provided.

With regard to the delivery of service the foreign banks are rated as the fastest followed by new generation banks and then the SBI group. In terms of satisfaction of the services foreign banks are recorded as the best with no trace of dissatisfaction, followed by new generation banks whereas about 29 per cent of the customers of PSBs remain dissatisfied with the type of service offered.

The overall satisfaction level with their most preferred bank is only 86 per cent in any category of banks. The dissatisfaction was pronounced among government employees who mostly bank with the PSBs. Some customers felt disappointed with the policies and practices of their banks. Some of the private banks of the old generation seem to be caught in between the modern banking technology and the old generation service providers.

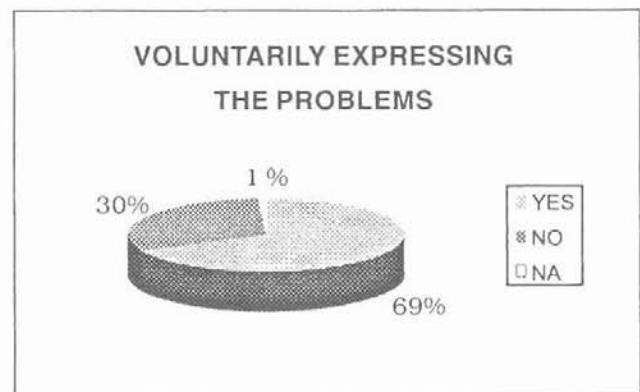
The modern banks are not fully free of the customers' criticism too. "If you are not watchful, you are going to loose your money, when you transact with new generation bank." says an irate customer of a new generation bank. He feels PSBs are much safer to bank with.

Some of the customers are fed up with the

aggressive marketing strategies of some banks. "I am sick of the tele-marketing by banks" commented Ms.S, a consultant, expressing her displeasure. Customers feel that they should not be put under such pressure in order to avail a service.

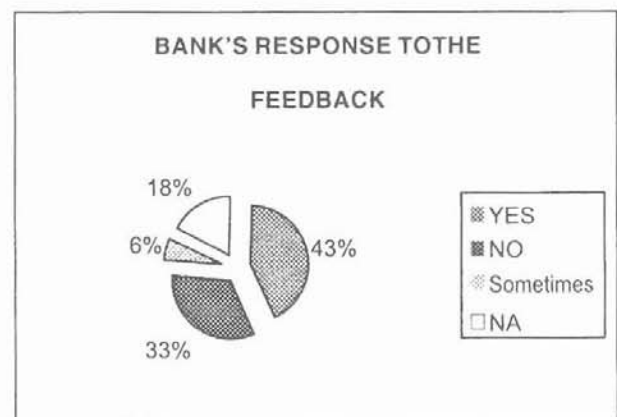
A good customer feedback system is an essential ingredient of customer care. Not all banks give due importance to the feedback from the customers. Customers seem to be eager in expressing their problems. Some banks on the other hand give little heed to such woos. 69 per cent of the banks do take feedback from the customers but they are rarely acted upon (Fig-4).

Fig-4



The non-responsiveness to the customer feedback is alarming. Only 43 out of a hundred are attended to by the banks (Fig-5).

Fig-5



Customer loyalty was the strong pillar on which the traditional banks including the old generation private banks were built up. Today's customers are not so loyal to their banks. Aware of the intense competition they would like to cash in at the best of the offers made by different banks. The below-40 age group, in particular, prefers to shop around from bank to bank seeking the products and services of their choice. This is the story at least in Kochi. Of the 750 respondents, barring small minority about 9 per cent, almost everybody has resorted to multiple banking. Some customers bank with as many as four to five banks. Apparently no single bank is able to fit in their products to satisfy all their requirements. Some of the old generation banks in the private sector and most of the PSBs excluding SBI, have their customer's loyalty split in favour of those who offer such services.

In the view of Kochi customers there is a great deal they expect from their bank. They very much recognize that their preferences and expectations are changing. (Fig-6) The study revealed that the bankers are not appropriately capturing the various dimensions of the changing customer

expectations. In the customers' perception "an ideal bank is that which is customer friendly, provides good product variety and offers excellent services delivered at the customer's convenience."

Both customers and banks are becoming increasingly techno savvy. There is a general positive inclination towards modern banking in tune with the changing lifestyles. While the young generation conforms so much to banking on plastic money, a small fraction of the crowd of above forty age group still believes in relationship banking and remains loyal to the old banks at least partially.

Customer expectations are changing. No single bank is able satisfy the changing needs of the customer. As a result, multiple banking has emerged as a common phenomenon (Fig-7). There are various reasons attributed to the change in customer expectations. Three main reasons which emerged as very important are the Change in lifestyle, Technological developments and the competitive environment (Fig-8).

Today customers have wide variety of choice in selecting banks; they can very well align their expectations with different services

Fig-6

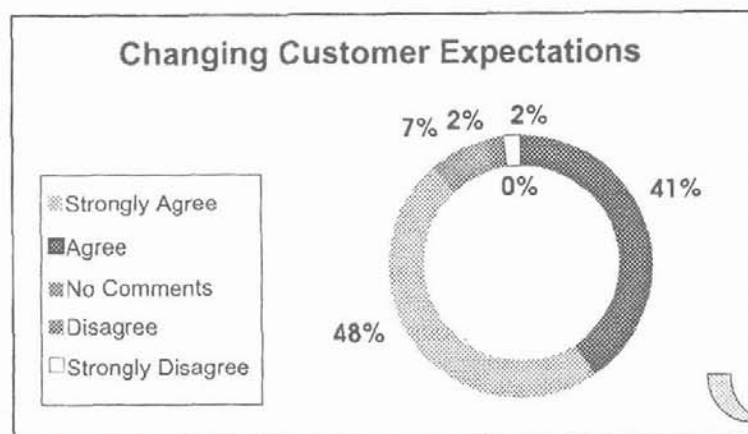


Fig-7

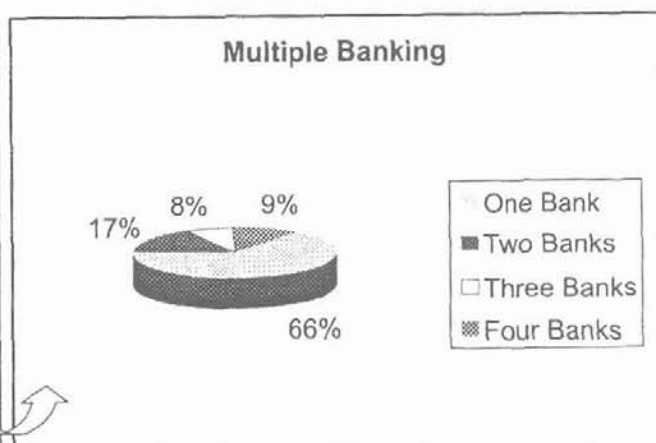
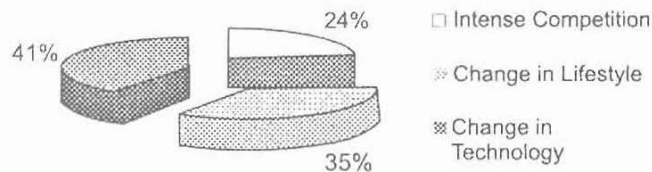


Fig.-8

## Reason for Changing Expectations



provided by different banks by opting for multiple banking

Thus banks are faced with concurrent challenges of increased competition, rising customer expectations and diminishing customer loyalty. Retail banking is very dynamic and competitive and therefore its survival and sustenance will depend on how banks are able to deliver value products against the changing expectations of the customer - The King.

Will any single bank be able to cater to all the "changing expectations of the Customers"?



# Corporate Governance in the Indian Scenario

Dr.Sathya Swaroop Debasish

## Introduction

Corporate Governance, in essence, means governance of a corporation. In practice, it is essentially the task of the Board of Directors of the company. In recent past, Corporate Governance has come into limelight in a way not known before. Shareholders everywhere are trying to make the company directors more accountable.

The problem of accountability to the owners has been there ever since the birth of public limited companies in the 19th century that separated the management and control from the ownership of the company.

It will not be wrong to say that Corporate Governance can be described as an attempt by the corporate sector to put its house in order. Seen in the broader sense, today Corporate Governance has become a sort of umbrella which covers in its purview, various facets of corporate management, corporate finance, law, economics, the constitution of the corporate board, its composition and its functioning itself, shareholder's rights and several other issues. More fundamental focus on corporate governance should be on rationale of the corporation, company ethics, values, culture and societal responsibilities, remuneration package for top executives and the independence of the auditor to perform effectively without fear or favour.

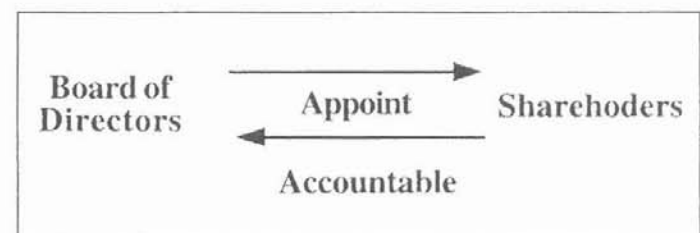
## What is Corporate Governance?

Corporate governance in its useful sense refers to the network of accountability--

relationships among board of directors, auditors and shareholders of the company. But by actual definition, corporate governance is not much concerned with the manner in which companies are undertaking the day-to-day management of their affairs, but on the contrary with the manner in which management itself is controlled and directed by other agencies.

According to CII's (Confederation of Indian Industry) draft code, corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants particularly its shareholders, creditors, state and employees. The new paradigm of corporate

Fig. - 1  
Legal Frame work



governance focuses on laying down minimum standards and defining the role of the various players involved in corporate governance. The Cadbury committee defines this concept in U.K. as a system by which companies are directed and controlled. If management is about running the business, governance is seeing that it runs properly and effectively.



**Fig - 2**  
**Stakeholders in Corporate Governance**

The Companies Act 1956 provides the formal structure of corporate governance (as shown above) involving general body of shareholders, board of directors and auditors as major players. It makes provision for assuring accountability to shareholders by providing exclusive rights to constitute the board and making the directors to come back to shareholders periodically to seek fresh mandate and approval. Though the legal framework provides the network for good governance, it is followed in letter than in spirit.

The Report of the Kumar Mangalam Birla Committee on Corporate Governance is the first formal and comprehensive attempt to evolve a Code of Corporate Governance, in the context of prevailing conditions of governance in Indian companies, as well as the state of capital markets.

This report has been prepared by the committee for SEBI, keeping in view primarily the interests of a particular class of stakeholders, namely, the shareholders, who together with the investors form the principal constituency of SEBI while not ignoring the needs of other stakeholders.

Corporate governance has several claimants--shareholders and other stakeholders--which include suppliers, customers, creditors, bankers, employees of the company, the government and the society at large. The Committee therefore agreed that the fundamental objective of corporate governance is the "enhancement of shareholder value, keeping in view the interests of other stakeholders". This definition harmonizes the need for a company to strike a balance at all times between the need to enhance shareholders' wealth whilst not in any way being detrimental to the interests of the other stakeholders in the company.

### **Genesis of the concept of corporate governance**

While the need for better corporate management felt just few years back in India as coincidence, similar views were raised at the same time in England. The first concern was that even big companies were so vulnerable to a change in economic circumstances. The second was about the adequacy of the controls that operated within companies. As a result of these issues of corporate governance became a live question in England. To tackle the issue the Cadbury Committee was created in early 1991. In 1992, the committee published the Code of Best Practices, which emphasizes the need for an adequate level of disclosures and appropriate checks and balances within the governance structure. These developments in England echoed in India too.

### **The Cadbury Report:**

It represents a watershed in the development of Corporate Governance in Britain. The Cadbury Commission was set up by three bodies--the financial reporting group,

the London Stock Exchange and the accountancy bodies in the UK. The committee on financial aspects of corporate governance chaired by Sir Adrian Cadbury was set up in May 1990 at the initiative of the stock exchanges and the accountancy bodies. From July 1st 1993, companies listed on the London Stock Exchange were required to comply with the code.

The circumstances were:

- Perceived low level of financial reporting and the inability of auditors to provide safeguards that the users of financial information expected.
- Directors on the Board were being paid excessive salaries, which were not linked to their actual performance.
- There was a feeling that the annual reports had failed to be proactive in predicting the 'sickness' in the company.
- Concern about loss of reputation of London as a viable financial center.

The Cadbury committee recommendations were based on the best practices in leading companies and were aimed at only strengthening the existing system and not replacing it. Thus, Cadbury code is an attempt to benchmark corporate governance.

Succeeding this Cadbury report, there has been two more important reports in the Indian scenario namely: CII (Confederation of Indian Industry) Code on Corporate Governance and Kumar Mangalam Birla Report (for use of SEBI). The major recommendations of all the above three reports/codes are detailed in the section: Case of Dr. Reddy's Laboratory (DRL).

## Popular Models of Governance

Corporate governance relates to the internal means by which corporations are operated and controlled. While government plays a central role in shaping the legal, institutional and regulatory climate within which individual corporate governance systems are developed, the main responsibility lies with the private sector.

Below we study the unique characteristics and distinctive features of four important models of corporate governance namely:

1. The Anglo-American model
2. The German model
3. The Japanese model
4. The Indian perspective

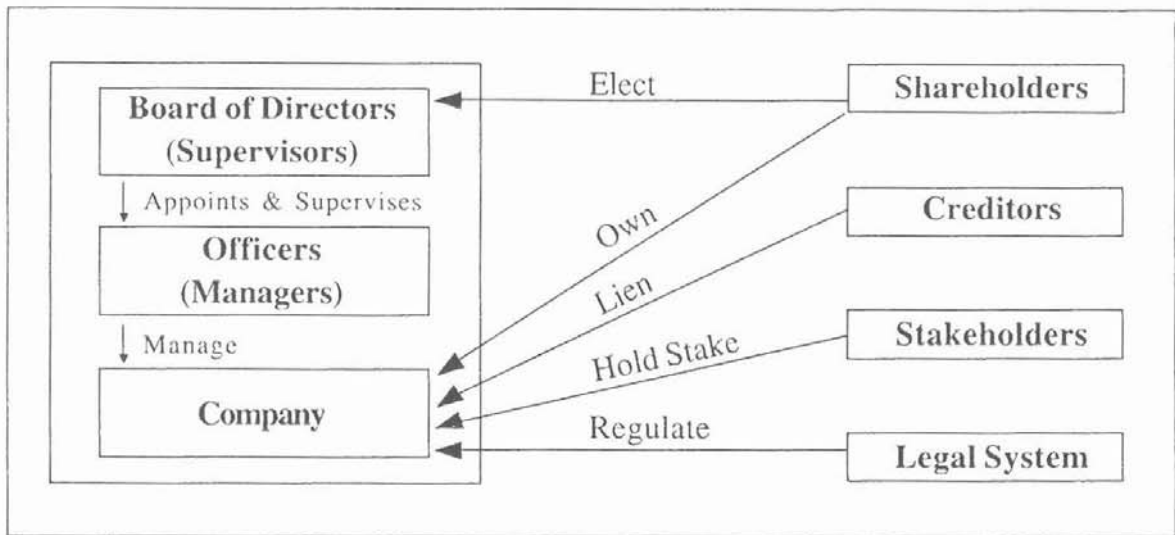
### a) **The Anglo-American model**

In this model (Figure- 3), the board appoints and supervises the managers who manage the day-to-day affairs of the corporation. While the legal system provides the structural framework, the stakeholders in the company will be suppliers, employees and creditors. However, creditors exercise their lien over the assets of the company. The policies are framed by the board of directors and implemented by the management.

*The distinctive features are:*

- Clear separation of ownership and management, which minimizes conflict of interests.
- Companies are run by professional managers who have negligible ownership stakes linked to performance. CEO has a major role to play.

**Fig - 3**  
**The Anglo-American Model**

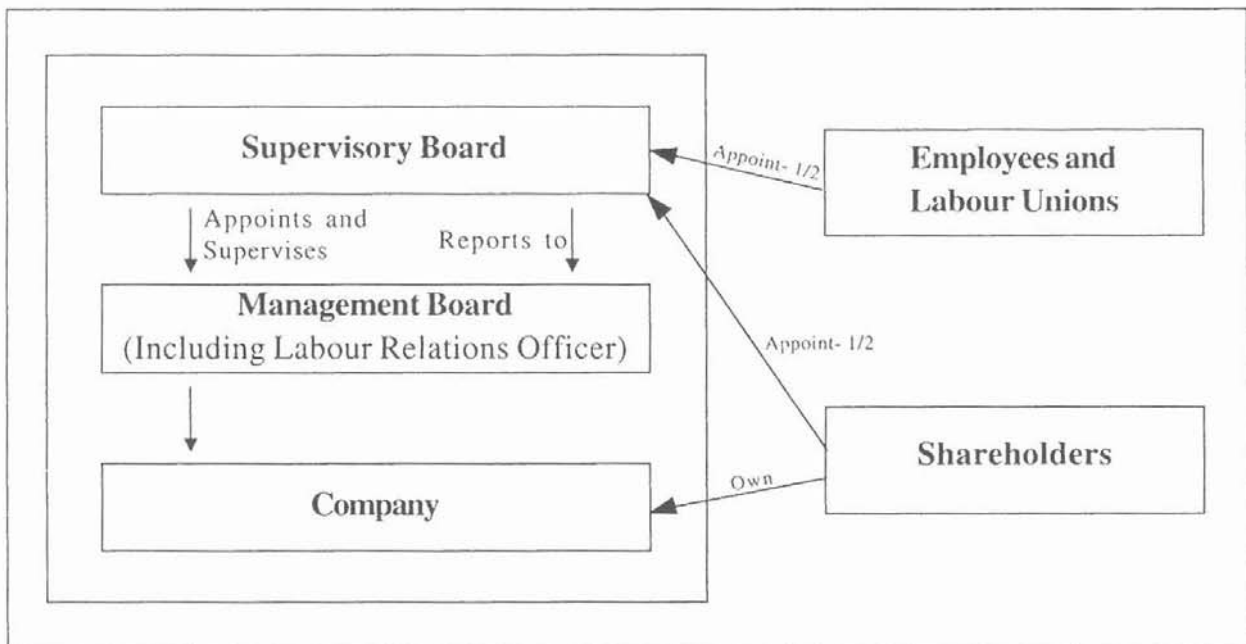


**b) The German Model**

In this model (Figure- 4), although the shareholders own the company, they do not entirely dictate the governance mechanism. As shown, shareholders elect 50 per cent of members of supervisory board and the other half is appointed by labour unions. This

ensures that employees and labourers also enjoy a share in the governance. The supervisory board appoints and monitors the management board. There is a reporting relationship between them, although the management board independently conducts the day-to-day operations of the company.

**Fig - 4**  
**The German Model**



The distinctive features are:

- ✓ Banks and financial institutions have substantial stake in equity capital of companies.
- ✓ Labour Relations Officer is represented in the management board. Worker participation in management is practiced.
- ✓ Both shareholders and employees have equal say in selecting the members of the supervisory board.

c) **The Japanese model:**

In Japanese model (Figure-5), the financial institution has accrual role in governance. The shareholders and the

bank together appoint board of directors and the president.

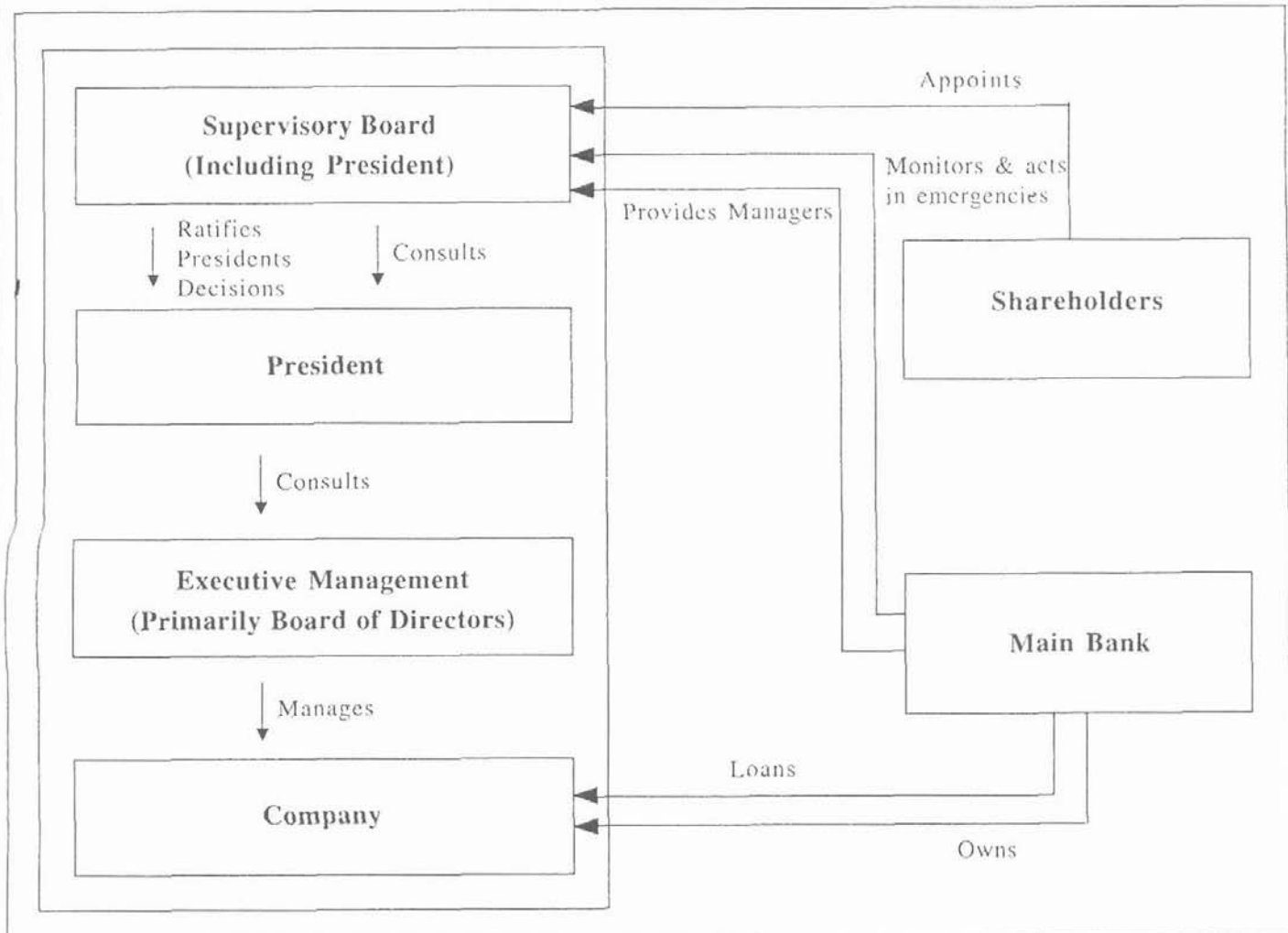
The distinctive features are:

- ✓ Inclusion of President who consults both the supervisory board and the executive management.
- ✓ Importance of the lending bank is highlighted.

d) *The Indian perspective (Governance in the public sector)*

India in its own right has a unique and epochal background of governance. In the ancient times, the King was always considered the representative of the

Fig - 5  
The Japanese Model





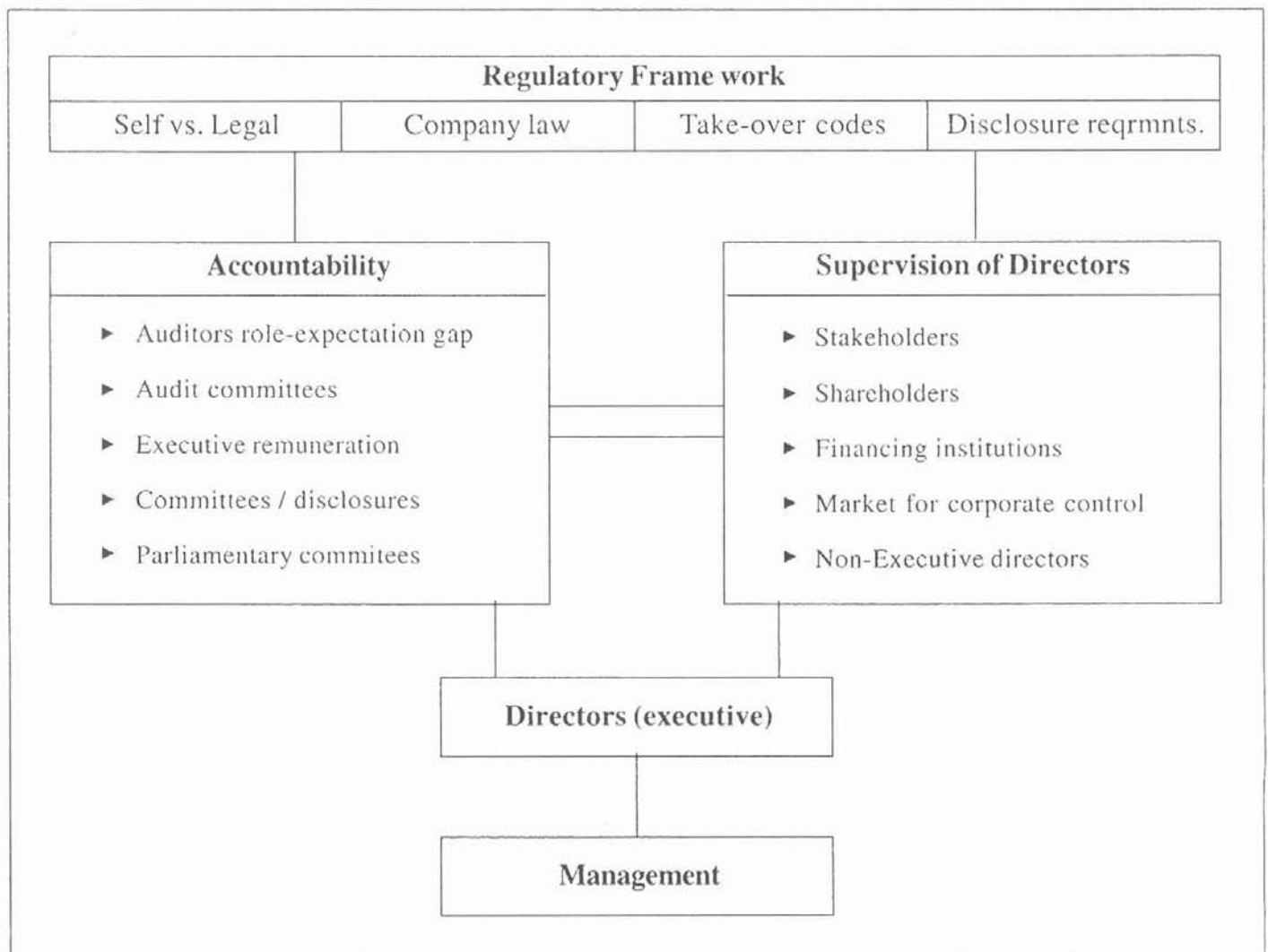
people. The wealth of the State was not the personal wealth of the king. The principle of trusteeship was also followed. Various modern authors have also taken tips on good governance from Kautilya's Arthashastra.

The modern Indian corporates are governed by the Company's Act of 1956 that follows more or less the UK model. The pattern of private companies is mostly that of closely held or dominated by a founder, his family and associates. In respect of public enterprises, central/state government forms the board. The hold of the government constitutes is to be dominant.

The distinctive features are :

- ✓ Equity shares are owned wholly or substantially (51 per cent or more) by the government.
- ✓ Good deal of political and bureaucratic influence over the management.
- ✓ Organization often viewed as a social entity.
- ✓ The board of directors are appointed by the controlling administrative ministry.
- ✓ Excessive emphasis on observing rules, regulations and guidelines.
- ✓ Efficiency and performance are sacrificed at the altar of propriety.

Fig - 6  
The Indian Perspective of Corporate Governance



### Case of Dr.Reddy's Lab (DRL)

Dr.Reddy's has always been committed to implementing sound governance practices and maximizing shareholder value in keeping with its role as a good corporate citizen. The company was the recipient of the BSE award for Investor Friendly Company in September 2000. The

recommended code for corporate governance in Dr.Reddy's evolved after a detailed study of the various published reports on corporate governance. The focus has been on going beyond mere compliances and evolving best practices keeping in mind the interests of all the stakeholders of DRL as depicted in Tables 1 to 5.

**Table-1**  
**Position of Chairman & Compliance at DRL**

<b>Cadbury Committee Report (U.K.)</b>	<b>CII Code (India)</b>	<b>K.Birla Committee Report (India)</b>	<b>Compliance at DRL</b>
The Chairman of the Board and the Chief Executive viz. the Managing Director of the company should be different persons	No specific recommendation	A non-executive Chairman should be entitled to maintain a Chairman's office at the company's expense. This is a non-mandatory recommendation.	The Executive Chairman, Executive Vice-Chairman and the Managing Director of the company are separate positions headed by different individuals performing separate and clearly defined roles.

**Table-2**  
**Constitution of the Board & Compliance at DRL**

<b>Cadbury Committee Report (U.K.)</b>	<b>CII Code (India)</b>	<b>K.Birla Committee Report (India)</b>	<b>Compliance at DRL</b>
The board should consist of at least three non-executive Directors, one of whom should be the Chairman.	Any listed company with a turnover of Rs.100 crores and above should have independent, non-executive directors who should constitute : * At least 30 per cent of the Board if the Chairman of the company is a non-executive director; or * At least 50 per cent of the Board if the Chairman and the Managing Director is the same person.	The board of every listed company shall have an optimum combination of executive and non-executive directors with no less than 50 percent of the board comprising of non-executive directors.	The present board consists of nine Directors, out of which six Directors are non-executive directors. The Chairman of the company is an Executive Director

**Table-3**  
**Appointment of Directors & Compliance at DRL**

<b>Cadbury Committee Report (U.K.)</b>	<b>CII Code (India)</b>	<b>K.Birla Committee Report (India)</b>	<b>Compliance at DRL</b>
There should be a formal selection process, which will reinforce the independence of non-executive directors. Non-executive directors should be appointed for specific terms	No single person should hold directorships in more than ten companies. As a general practice, one should not reappoint any director who has not had time to attend even one-half of the meetings	A director shall not be a member in more than ten committees or act as chairman of more than five committees across all companies in which he is a director	All directors are specialists in their respective fields. Except Chairman, all other directors hold directorships in less than ten companies.

**Table-4**  
**Audit Committee & Compliance at DRL**

<b>Cadbury Committee Report (U.K.)</b>	<b>CII Code (India)</b>	<b>K.Birla Committee Report (India)</b>	<b>Compliance at DRL</b>
Audit Committees should be formally constituted with a minimum of three members. Membership 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. The audit committee should meet at least twice a year	Listed companies with a turnover of over Rs.100 crores should set up Audit Committees (AC). AC should consist of at least three members, all drawn from a company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.	An audit committee be set up having a minimum of three members, all being non-executive directors, with the majority being independent, and with at least one director having financial and accounting knowledge. The committee's chairman should be an independent director. The audit committee should meet at least thrice a year	An audit committee was formally constituted in April 2000. The present committee consists of five independent, non-executive, directors.

Table-5  
Role of Company Secretary (CS) & Compliance at DRL

Cadbury Committee Report (U.K.)	CII Code (India)	K.Birla Committee Report (India)	Compliance at DRL
The Chairman and the board will look to the positive support of company secretary for guidance on what their responsibilities are under the rules and regulations to which they are subject to, how those responsibilities should be discharged and as a source of advice on the implementation of the code of best practices.	No specific recommendation.	Company secretary should act as a secretary to the audit committee	The company secretary currently advises the board on corporate governance practices and legal compliances, heads the investor cell.

### Beyond Legal Compliances at DRL

In keeping up with its responsibility as a corporate citizen, various social and welfare programmes have been initiated through Dr. Reddy's Foundation for Human & Social Development. DRL is committed to maintaining a clean and healthy environment. Initiatives like adoption of CGMP (Centralized Group Manufacturing Process), commissioning of ETP's (Extensive Technical Programs) in bulk activities manufacturing area to achieve zero discharge has been taken up in this respect. Quarterly results are published within four weeks of the approval by the board. The accounting is done as per GAAP-I (Generally Accepted Accounting Principles, Part-I) requirements. Equity is raised with specific funding objectives only, the details of which are included in the annual report.

The company has an ISO certified investor cell, which promptly responds to shareholder queries. Shareholders are also encouraged to send their queries on the company website. The company had the honor of receiving the BSE award for investor friendly company in September 2000.

### Concluding Remarks

Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants-in particular, its shareholders, creditors, the State and employees. To most international experts on the subject, corporate governance is an interplay between companies, shareholders, creditors, capital markets, financial sector institutions and company law.

As corporate governance regulations pile on greater responsibility on independent directors, it is time to question whether meaningful corporate governance reform could really be forced on companies. Indian companies, banks and financial institutions can no longer afford to ignore better corporate practices. As India gets integrated in the world market, Indian as well as international investors will demand greater disclosure, more transparent explanation for major decisions and better corporate value. The need to establish good corporate governance in India becomes more pertinent in the event of a larger number of



foreign portfolio investors will constantly raise their demand for better corporate governance, more transparency and greater disclosure, and the possibility that India (in near times) may well have full capital account convertibility.

## References

- Annual Reports of Dr. Reddy's Laboratory 1997-2003.
- Cadbury, A, "The Financial Aspects of Corporate Governance," *Gee Publishing, London: 1992.*
- CII, "Report on Corporate Governance by Confederation of Indian Industry," *Chartered Secretary, Vol. 27, No.5 580-587.*
- Hampel, R.. "Committee on Corporate Governance: Final Report," *Gee Publishing, London: 1998.*
- Krayenbuehl, T.E.. "Corporate Governance in Banking-A Case for Tighter Regulation," *Long Range Planning, Vol. 26, No.3, 1993, 26-35.*
- Nam, I.C., Y. Kang and J.K. Kim, "Comparative Corporate Governance Trends in Asia", OECD and Korea Development Institute Conference, Corporate Governance in Asia: A Comparative Perspective," *Seoul, 3-5 March 1999.* (Paris: Organisation for Economic Co-operation and Development).
- Naresh Chandra Committee on Corporate Governance, New Delhi: "The Department of Company Affairs." *Ministry of Finance and Company Affairs, Government of India, 2002.*
- Rubach, M.J., and T.C.. Sebor, "Comparative Corporate Governance: Competitive Implications of an Emerging Convergence," *Journal of World Business, Vol.33, No.2 (Summer 1998) 167-84.*
- Shleife, A., and R.W. Vishy, "A Survey of Corporate Governance," *Journal of Finance Vol.52, No.2, 1997, 737-83.*
- Stiles, Philip & Taylor, Bernard, "Benchmarking Corporate Governance: the impact of Cadbury Code," *Long Range Planning, 1993, 61-71.*
- World Bank Group, "Cadbury leaves a bitter taste for smaller companies," *Management Today, April, 1997.*

## Book Review

# *Some Experiments in Human Relations*

(A collection of case studies from the field of HRM)

Prof.N.C.George  
(SCMS Publication 2004)

### **Managerial narratives to chew and digest**

In this new book *Some Experiments in Human Relations*, Prof.N.C.George is sharing with us his trials and tribulations in Human Relations Management in a large Public Sector company in Kerala. The turbulent industrial relations in the two decades from mid-sixties to mid-eighties in the State cast their shadow in all the fifteen incidents narrated.

Most of them are related to factory set-up where thousands of people *congregate for work* (some for rest and even sleep, as told in the story "Sleeping time; Over Time: Don't Disturb" and are agitated or pressed to agitation by their union leaders at the silliest of pretexts (but with deeper, hidden motives—as in the cases of "Industrial Relations Vs Human Relations" and "Sweet, Yet Down the Drain").

There are lighter episodes high-lighting the pitfalls to be encountered by a well-meaning protagonist of human relations approach in day-to-day management, such as in "A Midnight Drama" and "A Good Conduct Certificate." The human relations expert becomes a psychologist in prescribing adequate solutions to the baffling personal

problems of his junior colleagues in the chapters "My Moustache," "My Enemy," and "The Scare of Night Shift."

Then, there are stories such as "Don't Trust your Neighbour," "Crime and Punishment," "Sir, please suspend Me for a Longer Period," "Offering or Taking Bribe," "Senior Manger Dumped on National High Way" and "Can Improve," which deal with the rules and regulations concerning employees and the legalities involved in their application, which occasionally lead to bizarre situations, as experienced by a human relations practitioner. A special mention is due to the stories "This Time Either I get selected or You Die" and "And Explosion and its three Victims." The former depicts the nightmare of unemployment of youth in thousands and the challenges, tension and even threats that a human relations manager had to face consequently. In the latter story, the poignant human tragedy involved in a fatal factory accident and the subsequent reactions from employees, Union leaders and the Management, especially the two Chief Executives with different approaches to human issues, are narrated with utmost objectivity and deep insight into the motives and behaviour pattern of the persons involved.

All these stories dealing with different situations experienced by a human relations manager are highlighted here as case studies for the benefit of students and practitioners of human relations in an industrial environment. The author takes his stance as a classic witness, who recollects his past experiences with detachment and impartiality, and with an eye for details enlivens his narration with liberal sprinkling of wit and humour. Though the incidents as such are temporally and spatially specific, the

basic instincts, motives and behaviour of the characters involved, have a universal nature and applicability. Hence, all those who study them closely will greatly benefit from the issues they throw up and the messages and directions they give. To make their effort easy, the author had thoughtfully provided detailed notes on "Issues to be considered" at the end of each chapter.

**K.J.TITUS**

Former Executive Director (HR), FACT Ltd., Cochin.

