SCMS JOURNAL OF INDIAN MANAGEMENT

Contents

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The Chairman speaks ...

We firmly believe that the future belongs to those who are willing to change and willing to innovate. Discussions and predictions are already alive among the management circles as to how the present knowledge economy is going to gradually pave way to the next level of economic activity focusing as creativity and innovation. We are always committed to keep abreast of all these evolutionary changes that could provide new pathways to progress.

The first issue of SCMS Journal of Indian Management was released in April 2004. Since then, the Editorial Board has been continuously struggling to enhance the quality of the Journal. Several changes, I mean improvements, were brought out in the quality of the content and method of presentation as well as in the layout and production. As you might notice, there has been dramatic overall improvement and value addition in the current issue.

The Editorial Advisory Board itself has been reconstituted to give a wider global perspective to the Journal. In addition to renowned academicians, top executives from the industry and the government have also been inducted in the Board to give a broader frame of reference.

We are sure you will enjoy this issue.

Dr.G.P.C.NAYAR
Chairman, SCMS Group of Educational Institutions

SCMS Journal of Indian Management

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Editor-in-Chief : **Dr.G.P.C.Nayar**
Chairman
SCMS Group of Educational Institutions

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Formerly Director, Mahatma Gandhi University
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Editorial

Welcome to the third number of Volume II of SCMS Journal of Indian Management.

Once you start reading this number, you are likely to experience the "new improved" journal.

We've worked hard to make sure you are holding one of the most up-to-date journals in academic/corporate status quo with an added flavour of research to supplement.

The Journal was launched a year back. It hadn't many goals to achieve except that a top b-school, the best and the largest in S.India, should have such a one to add to its glory.

But today, the time has changed our attitude to the Journal in tune with the demand of its readers. The Journal blossoms into an internationally acknowledged one.

Therefore, its target is global approval.

The Journal has in its mailing list eight hundred out of twelve hundred b-schools in India. It has also to fulfill the requirement of four hundred of the corporate. They are waiting for the Journal every quarter, on 1 January, 1 April, 1 July and 1 October. The Journal now stretches its reach out to b-schools abroad. We get a few subscriptions from foreign countries also. The Journal has many new accomplishments: well-known professors from all over the globe have contributed to the Journal. The corporate have had their share too.

A new feature includes concise complementary from the kingpin in one PSU in India as a response to the US academia's acumen showered on the sharp edge of "axman." This is of course an Indian experience projected in apposition to the western represented in the article inside.

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Development Financial Institutions in New Environment

K.Shivaji

Abstract

Development Financial Institutions (DFIs) in the present form are no longer sustainable and DFI model is losing its relevance. The author gives a brief account of the birth and growth of prominent DFIs in India, both at the national and state levels with various products that these DFIs offer. The article touches upon the various survival strategies for DFIs.

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Development Financial Institutions (DFIs) in the present form are no longer sustainable and DFI model is losing its relevance. Some of them have undergone changes in their structure, where as some have become non-functional and choked institution with high NPAs etc. Universal banking and one stop solution have become the Mantra of survival for all the FIs in the changed economic environment. In essence, the DFI model of India, no longer, remains a cherished one of growth for providing much desired credit needs of the "Long-gestation & infrastructure projects" though, infrastructure still remains one of the most critical bottlenecks for accelerated economic growth in India.

Recent developments in financial sector have put tremendous strain on DFIs. Most of the performance indicators reveal that these institutions are in distress, their cost of funds and lending rates are high, their margins and spreads have been squeezed, thereby rendering them not competitive, unsustainable with high non-performing assets (NPAs).

ICICI in 2002 merged with its subsidiary bank and became a universal bank. IFCI have almost collapsed with its high NPA & Negative Net Worth. IDBI has also been restructured by huge financial support of Rs.9000 Crore by Government of India and slated to be merged with IDBI Bank. The conditions of all other DFIs e.g., IRBI, EXIM Bank, SFCs, IDCs are also not better.

In the absence of well-developed capital market, Indian Financial system has traditionally been classified as "bank based" system, where, banks, insurance Cos., Provident & Pension funds, Mutual Funds, DFIs etc. have been playing dominant role in the financial system. However, there has been steady growth in deepening, widening of the capital market in the Country and Capital Market is providing accelerated complimentary support in delivering increased fund needs to the industry.

Banks generally have short-term funds, which are mobilized mainly through deposits and they were permitted to meet short-term credit needs like working capital, etc., whereas, DFIs were encouraged to provide long term credits and finance long gestation & infrastructure projects.

Long-term lending has inherent high-risk, with high uncertainties, which become all the more pronounced in a fast changing economic environment. There has been sea change in the economic policy, since nineties, specially with regard to taxation, Foreign Direct Investment (FDI), Exim Policy etc. Hence, the estimation of its impact on credit risk and to factor in such long term project finance is difficult, which has been one of the main reasons for increased strains on DFIs. Sudden dismantling of the controlled and administered rate structures have adversely affected DFIs, because these DFIs have floated highly rigid financial instruments, which had near absence of modern / flexible options of mid course corrections/ tenure changes like call / put, redemption options etc., floating / index rate financial instrument, which provide easy escape route with negligible exit cost / barrier in case of such adverse financial environment / policy changes.

Due to inherent risky credit exposures for long-term lending, and general reluctance for this by banks but due to its crucial importance for economic growth, after independence, Government of India, first set up IFCI in 1948 under IFCI Act as a Statutory Corporation, which was incorporated as a Company in 1993. IDBI was also set up in 1964 by an act of Parliament as a wholly owned subsidiary of RBI. Later in 1976, ownership was transferred to Government of India (GoI). In 1994, IDBI Act was amended and in 1995, GoI's holding was reduced to 72.14 per cent and then to 58.47 per cent.

IRBI was set up in 1985 under IRBI act as principal credit and reconstruction agency for assisting rehabilitation of sick and closed industrial units.

SIDBI, set up in 1990 (under SIDBI Act 1989) was carved out of IDBI by taking over the outstanding portfolios and activities pertaining to small-scale sector. SIDBI is a DFI with 100 per cent ownership of IDBI and later in 2000, 51.1 per cent equity has been transferred to PSU banks, LIC, GIC and others.

These DFIs were set up with more of developmental objective as promotional agencies with extended arms of Government and not merely as a commercial agency.

SFCs were also set up in each State under the SFC's Act 1951, as State level DFIs, mainly with the equity subscriptions of IDBI and of respective State Governments. The shares of IDBI in SFCs after amendment of SFC Act in 2000 are expected to be transferred to SIDBI. SFCs being the lower tier of DFI, have operations at cutting edge level for providing long-term credit needs to SSI sectors, in every part of the State and also to the first generation entrepreneurs.

SFC's credit exposures have been highly risky due to the followings:

i) Inherent high credit risks due to long term financing.

ii) Lendings are to SSIs, which are more prone to risks on account of several factors.

iii) Most of the project finance are to the first generation entrepreneurs, who opted to venture for such SSI projects as last option at the end, with very little background / experience.

iv) Such projects were undertaken more from employment objectives, with no or little expertise on its manufacturing / marketing of its products etc.,

v) High administrative, costs due to small and highly scattered units.

vi) SFCs have been bearing complete recovery / credit risk with lower margins, as dictated by SIDBI and SIDBI get interest income without any recovery risk.

vii) SIDBI, with no promotional role is lender and also regular and continued biggest beneficiary of the concessional funds, without any risk.

viii) Caught between rapid adverse market changes and rigid terms / attitude of SIDBI.

SFCs are now under tremendous strains on account of the followings:

- All these DFIs including SFCs were set up with more of development agencies with extended arms of Government agencies and not merely as commercial agencies. DFI model of India envisaged to encourage DFIs for delivering long-term credits in risky sectors / segments by providing concessional funds, on the premises of development role of the Government.

- In commensurate with the developmental objectives of Government for growth by felicitating long term credit, Government through RBI had been providing National Industrial Credit (long term operation) fund (NIC (LTO) fund) at concessional rate of DFIs till 1992 and thereafter it has been stopped.
- RBI used to permit SFCs to float SLR bonds, which has now been stopped.
- When interest rate has come down, then high interest bearing SLR bonds were allowed by RBI for debt swap at prevailing market interest rates to State Government, where as the very same facility has been denied to SFCs, even though the need is more to SFCs.
- SIDBI / IDBI, even though were supposed to provide developmental guidance / support / assistance, but have been working more as regulator / administrator.
- Since SIDBI / IDBI have been working both as lender and also as regulator, they have always been framing rules etc., favourable to them and not for SFCs / SSI entrepreneurs.
- Considerable part of the NICLTO and other concessional fund were always been retained with SIDBI / IDBI and continued to get direct advantage of such concessional funds, though these benefits were to be passed on to SFCs and to entrepreneurs.

As a result of the above, it is likely that the long-term credit needs for balance regional development and for unemployed, competent, qualified youth may not be fulfilled. Some of the risky sectors may also be deprived of the timely and adequate long-term credit.

Options:

- SFCs continued to be captive customer of SIDBI / IDBI for source of funds, which has always been dictated upon. This needs to be diversified.
- Banks have natural advantage of getting deposit funds at lower cost. Hence, option to convert into banks, with universal banking activities may be tried.
- Since major disadvantages to SFCs are high risk credit due to need based lending operations, the lending may be changed to highly security based lending.
- To reduce credit risk, DFIs should also be now highly choosy in selecting customer to enhance its comfort level and credit quality.
- Most important need in the new environment is to offer tailor-made customer service by providing **"One Stop Solutions"** of all types of the credit needs to customer.

The Axman's anxieties- How East German Management Executives cope with Layoffs during the Transformation Process

Thomas Steger

Abstract

This paper concentrates on downsizing processes, which have taken place within the context of the transformation of the socialist economy of former East Germany… While the "victims" as well as the "survivors" of layoff processes have been widely observed in recent years, the "executioners" have remained somewhat fairly ignored. According to the "grounded theory"-approach, a theoretical model should be developed, which should explain how the latter cope with layoffs and the experiences gained in the process. Moreover, the model not only integrates some process aspects of this topic but also considers the widely differing behavioral tendencies of those involved.

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Downsizing and layoff processes are key events in transformation processes at the company level - and so was the case in East Germany. Across the country whole companies and parts of companies considered no longer necessary were closed down and personnel staff numbers were massively cut. In fact, restructuring was not done overnight rather dominated the following years. So, often we face overall staff reductions of more than 90 per cent. Moreover, layoffs should not only be considered macro- or meso-level events but they also played a key role for all individuals involved in these processes. What never had happened before became a daily reality: to be affected by job loss or to see close colleagues lose their jobs. Those responsible for all that - executives at different levels of the companies entrusted with the task to decide, to designate, to inform and to justify - constitute a special group in these processes. It seems interesting to investigate more closely on how these people managed to cope with layoffs and what kind of perspectives, attitudes and strategies they hold.

State of the art

Two streams with respect to our topic can be found in the literature: studies dealing with layoff processes on the background of the East German transformation process and studies dedicated to the reactions of people involved in those processes.

Layoff processes in East Germany

Layoff processes in East Germany started in early 1990, even before currency union and re-unification. In the beginning they were perceived as the logical consequence of 40 years of socialist mismanagement and considered necessary for the economic recovery of the country (Fischer *et al.*, 1993; Wiesehahn, 1995). However, relatively soon they turned out to affect the very substance of the economy and to lead to massive de-industrialization across East Germany (Windolf, 1996). On the background of a continuous unemployment rate above 17 per cent in East Germany (about the double of the West German rate) a clear-cut polarization between the employed

and the unemployed became phenomenal (Diewald and Solga, 1997) whereby especially women, elderly as well as young people were affected.

Moreover, the human capital often was thoroughly underestimated (Albach, 1993) - not at least out of political reasons - which even promoted massive know-how-losses and processes of individual de-qualification and de-valuation (Fiedler and Steger, 1996; Hanel and Mayrhofer, 1997). Within the companies, the situation was characterized by hampered confidential social relationships and a widespread atmosphere of suspicion, de-motivation and helplessness (Stieler-Lorenz, 1996; Baeckmann, 1998).

Actors in layoff processes

A large number of studies analyzing the situation and the reactions of actors involved in layoff processes, distinguish between "victims" (people directly affected), "survivors" (people remaining after the layoff) and "executioners" (people directly or indirectly responsible for the layoff) (Kets de Vries and Balazs, 1997; Wright and Barling 1998).

While the two former groups have been focused on by many authors in the past (Brockner, 1992; Mishra and Spreitzer, 1998; Wanberg *et al.*, 1999; Feldman and Leana, 2000; Wiesenfeld *et al.*, 2001), the latter were rarely found worthy to be observed in detail. This may have been caused by the widely held myth of the "rationale manager" (Kets de Vries 1989) although it has been more and more questioned in recent years (Illes, 1996; Fortune, 2001).

The few existing studies report about reactions such as senselessness, fear, anger, role overload and social isolation as well as health and family problems (Folger and Skarlicki, 1998; Wright and Barling, 1998; DeWitt *et al.*, 2003). Moreover, Wright and Barling (1998) developed a three-steps-process-model to integrate the diverse occurring problems. Isabella (1990) demonstrated how executives (re-)construct and interpret key events in their daily work. Furthermore, Kets de Vries and Balazs (1997) presented a typology of "executioners."

Nevertheless there remains a deficit about this topic. This leads us to develop a model on how management executives cope with layoffs on the background of the transformation process. This should be on the one hand a process model and - at the same time - on the other hand should integrate a diversity of alternative thinking and behaviour attitudes.

Methods

As a basis for this paper, I conducted some 49 qualitative interviews with management executives from five East German equipment industry companies between 1994 and 1998. All of them underwent massive layoff processes (more than 50 per cent of their staff). Two companies can be considered small (15-25 employees), three medium-sized (150-670 employees).

The large majority of interviewees were male (88 per cent) and socialized in the former GDR (90 per cent). Their average age was 48 years. 25 per cent belong to the higher, 59 per cent to the medium and 16 per cent to the lower level management. Almost two thirds of the interviewees (65 per cent) faced layoffs during the last year before the interview whereby 50-60 per cent of the staff was affected (10 per cent of interviewees); about 30 per cent of the staff (16 per cent of interviewees) and 5-10 per cent of the staff (39 per cent of interviewees) respectively. With the other interviewees the last layoff process was more than one year ago.

The average length of the interviews was 58 minutes (ranging from 21' to 100'). They were all tape-recorded and fully transcribed. The analysis and interpretation work followed the "grounded theory"-approach (Glaser and Strauss 1967). This was mainly for three reasons: First, the grounded theory approach is a well established and detailed method which enhances its use. Secondly, this approach consists of a high variety of techniques and is highly ambitious in nature which enables its use in quite diverse scientific frameworks. Thirdly, the researcher using grounded theory can act very flexibly and free and is not restricted to a dogmatic procedure.

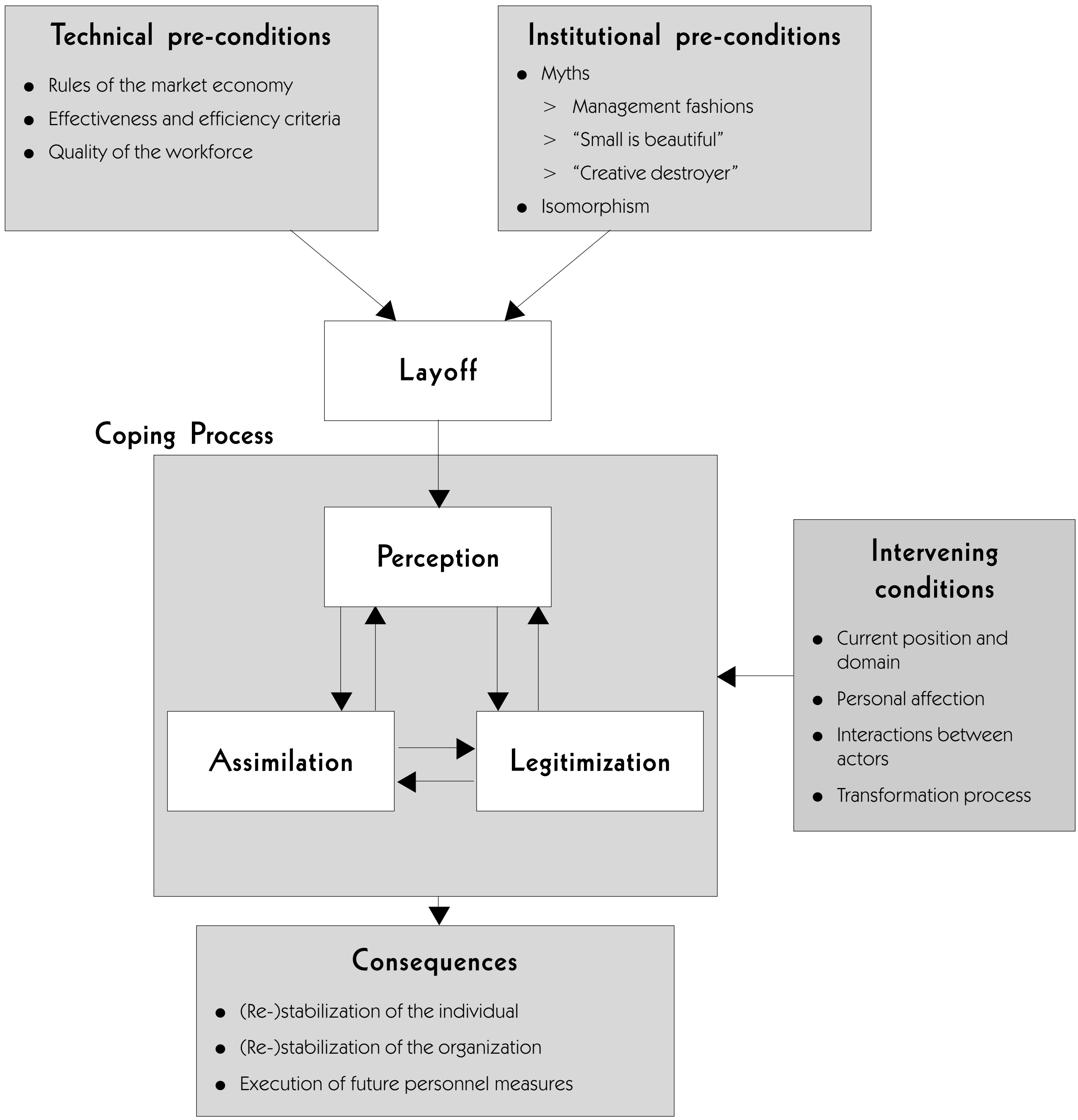

Figure 1: Qualitative model of the coping process of management executives involved in layoff processes

The coping model

Figure 1 contains the main outcome of the data analysis: the qualitative model describing the coping process of management executives involved in layoff processes. In the following section with the help of concrete text accounts it should be described in detail.

Pre-conditions

The reasons and conditions accounting for layoffs were broadly mentioned in the interviews. The distinction between technical and institutional arguments - as described by McKinley *et al.* (1995) according to the new institutionalism (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) - became clearly visible:

On the one hand, some management executives consider layoffs as part of the new *market economy system* and therefore as normal and taken-for-granted.

> *"It was a common opinion in the company: With this multi-functional structure, thus ranging from construction and technological project management, an own electrical department, a special equipment construction, an own design department, with a staff of, at that time, about 130 persons... This does not exist under market economy conditions." (Interview 15, account 73)*

Furthermore, layoffs are usually connected with considerations about *effectiveness* and *efficiency*, perceiving personnel just as a cost factor. Moreover, a third argument not to be underestimated is the discussion about work quality: Herein, the released employees are considered as performing insufficiently, which turns their exit into a company gain.

On the other hand, there are diverse institutional reasons for layoffs. Being more of unconscious character they cannot be found as easy as the technical ones: Important here are diverse *myths*, such as the ones deriving from current *management fashions* (e.g. lean management), the *"small is beautiful!"* concept or even the idea of the Schumpeterian *"creative destroyer."*

> *"The standard speech was: This will never work... which should have been changed, and even the workforce reduction never works! (...) And all this nearly silently happened. What you need in such a situation is, let's say, is the central theme. (...) In such phases you need people... with a strong hand." (3, 122)*

A further institutional pre-condition often mentioned is the *isomorphism* - referring to the concept of DiMaggio and Powell (1983) - whereby layoffs are considered necessary adjustments to commonly held practices (or the common fate) in the branch or the region.

> *"You know quite well, the equipment industry was completely down. There was an immense breakdown noticeable not only here in Saxony but everywhere…" (31, 120)*

The coping process

The question of how management executives cope with the layoff experiences stands in the center of our model. There are three distinctive processes to be identified - the perception of the layoff, the individual legitimization and the assimilation of the experiences made. With this we go a step beyond the model of Wright and Barling (1998) who concentrated on diverse reactions of the management executives in time. Although the perception stands at the beginning of the whole coping process, all three processes are closely connected with each other. They may be pre-conditions for each other and even run through more than one time. For each process several different patterns could be identified whereby most interviewees showed not just one, rather a few of them in combination.

This reveals some clear references to the psychological coping research: The coping process is closely connected to the key events in the life of the individual (here: layoff processes) which in turn result in various forms of stress in the lives of the executives (Goldberger and Breznitz, 1982; Lazarus and Folkman, 1984). Herein, social constructions, individual attribution processes as well as control perspectives are of considerable importance (Heckhausen and Schulz, 1995; DeWitt *et al.*, 2003).

The *perception* of layoff is not just a visual act but the way of (re-) constructing this (key-) event (Isabella, 1990; Sronce and

McKinley, 2003). In that way, the perception lays the foundation for the personal interpretation of the layoff, i.e. the answers to questions such as: why did the layoff occur? How was the layoff executed? Which concrete problems occurred with the layoff? Figure 2 shows the different patterns of perception found in the data - the following quote is an example of a personal-emotional perception.

> *"With respect to the enterprise I consider this huge downsizing wave most painful because the phenomenon was completely unknown to us in the former times." (28, 15)*

Logical-deductive perception (82% of the interviewees)

Layoffs are a logical event, derived from the rules of the market economy.

Personal-emotional perception (63%)

Layoffs are events, which are perceived highly personally and emotionally.

Hypothetical perception (47%)

Layoffs are anything hypothetical, standing (or threatening) in the (near) future.

Logical-inductive perception (27%)

Layoffs are necessary pre-condition for the future prosperity of the company.

Fatalistic perception (18%)

Layoffs are anything unpredictable, which cannot be influenced in any way and therefore are to be accepted.

Figure 2: Patterns of perception of the layoff

Coping with problematic events makes distinct processes of individual *legitimization* to protect the own self-concept indispensable (Steger, 2000). Layoffs can be considered in such events. The individual is therefore forced to find some explanations for what happened. At the same time they help to explain his/her own position and therefore to secure and justify the person himself. The different patterns of legitimization found in the data are collected in figure 3. They can be divided in self-referential (the first four) and interaction sources (the further ones) - the following quote is an example of a legitimization with reference to external actors/objects.

Reference to his/her own modern attitude (88%)

To legitimate himself/herself referring to his/her own modern and progressive attitude comprehending layoffs as normal characteristic of the economic life

Reference to his/her own performance and engagement (62%)

To legitimate himself/herself referring to his/her own performance and engagement underlining his/her own indispensability - in sharp contrast to the persons laid off

Reference to his/her own honesty and social attitude (100%)

To legitimate himself/herself referring to his/her own honest (i.e. considerate, sensible, social) attitude

Reference to his/her own critical attitude (73%)

To legitimate himself/herself referring to his/her own critical attitude (e.g. towards the layoff, the responsible persons inside or outside of the company or the directly affected people)

Reference to internal actors/objects (45%)

To legitimate himself/herself identifying himself/herself with other actors (e.g. the affected people) or objects (e.g. restructuring process) inside of the company

Distance from internal actors/objects (67%)

To legitimate himself/herself distancing himself/herself from other actors (e.g. the top management) or objects (e.g. the old structures) inside of the company

Reference to external actors/objects (43%)

To legitimate himself/herself identifying himself/herself with other actors (e.g. the consulting company) or objects (e.g. the government's policy) outside of the company

Distance from external actors/objects (84%)

To legitimate himself/herself distancing himself/herself from other actors (e.g. the Treuhandanstalt) or objects (e.g. unfair market structures) outside of the company

Fatalism (16%)

To legitimate himself/herself referring to events or factors which are unpredictable and can not be influenced in any way and therefore are to be accepted (e.g. the worldwide recession process)

Figure 3: Patterns of individual legitimatization in connection with layoff processes

"If a former blue-collar worker, had stood up on the stage and had declared that 50% of the staff had to be dismissed, the crowd would have chased him/her away. That's why we used <name of a consulting firm> to bring this philosophy into to the enterprise and to spread it out." (43, 38)

Thus the individual faces the task of *assimilating* the experiences made. Although this process was hardly discussed in earlier studies it must be considered of special importance for management executives of whom the surrounding people expect some reactions. Often it can be seen as a consequence of both, the perception and the legitimization process. But this does not always imply a "logical" connection: not seldom, the reactions are even contradictory as was reported by several authors (Folger and Skarlicki, 1998; Wright and Barling, 1998). Figure 4 collects the patterns of assimilation found in the data - the following quote is an example of weighing up different goods.

"At the same time I am the top commercial manager, and when I recognize that the course of the ship becomes awkward, then I have to get rid of a ballast on the side where it is wrong if not the rest of the crew is to sink." (55, 153)

Intervening conditions

During the analysis it became clear that the coping process does not remain unaffected but it is highly influenced by several intervening factors. Here too, it is important to find out the personal perception of these factors by the actors. Moreover, there are some references to the coping research which earlier pointed to the importance of individual resources and the aspects of the situation (Lazarus and Folkman, 1984; Ashford, 1988).

First to be mentioned is the *current position and department* of the manager since the situation of the top manager obviously can be fairly different from the situation of a shop floor leader. Moreover, not each department is affected by the layoff in the same respect and the chances of the employees laid off can largely differ from each other.

Calming/Diminishing (61%)

Assimilation by diminishing the consequences of the layoff or by referring to measures to calm them

Sympathy (55%)

Assimilation by expressing sympathy with the directly affected people and their fate

Distancing (55%)

Assimilation by avoiding any contacts with the layoff and the directly affected people

Engagement (41%)

Assimilation by showing concrete engagement in favor of the directly affected people

Weighing up different goods (27%)

Assimilation by referring to higher targets or values (e.g. survival of the company) which should justify the victims of the layoff

Sense of duty (27%)

Assimilation by demonstrating a strong sense of duty comprehending his doing as the fulfillment of a necessary task

Own affection (22%)

Assimilation by referring to own affection by this or any other layoff (e.g. own family members as layoff victims)

Fatalism (22%)

Assimilation by referring to the unpredictability of the layoff or to the fact that the layoff would be out of his/her control

Critique (16%)

Assimilation by taking a critical position vis à vis the layoff and the persons responsible for it

Figure 4: Patterns of assimilation of layoff experiences

"…then the colleagues you worked with over years stand on this list and you have to work it off, one after the other. I must say, all those were extremely skilful workers. This was also proven by the fact that nobody in this group who was dismissed has failed to find a new job. Nobody." (31, 10)

A further factor is the amount of *personal affection* of the manager by the layoff process (Wiesenfeld *et al.*, 2001): the family situation (e.g. dismissed family members?) can play an important role.

Furthermore, to be considered important is the *interaction climate* of the manager's personal environment, e.g. if he/ she is faced with offenses or accusations or - on the other side - how far common assimilation work takes place. Finally, referring to the situation of East Germany, one should also take into account the *transformation process* as of great intervening power, which produces a situation with several different stressors (apart from the layoff process). Offe (1991) called it the "dilemma of simultaneity." On this background fatalism and helplessness are often to be found.

> *"In my opinion, there are some very negative tendencies at the moment. I must say, that's for sure, not everything is going on honestly. I cannot really understand that there was only such a small number of jobs around here. But there is an economic policy aimed on that. And it is a tragedy, besides unending discussions there is no reaction to that. But well, as a single person you can just take note of that…" (72, 305)*

Consequences

The coping process of the management executives involved in layoff processes is consequential on diverse levels. Some of the consequences have already been mentioned above according to the different types' risks. Moreover there are some more to be discussed hereafter.

First of all, as it was also pointed out in recent studies (Illes, 1996; Wright and Barling, 1998), we have to consider the problem of *individual (re-)stabilization processes* of the management executives involved. Some of them hope for the time going on and try to put an end to what happened in the past.

> *"I do not want to work with the past, I mean that's over now. Not to make my work easier but also in favor of my employees. At a certain point they also have to put an end to this and to say: We look ahead now and not always backwards." (80, 156)*

Others are just happy to still have their job and to still be there. For several management executives however it is not possible to put an end to what happened. It remains in their mind as a negative key event and as a continuous insecurity factor, which keeps influencing their thoughts and their behaviour.

Also on the *collective level* of the workgroup and of the whole firm some considerable processes of *(re-)stabilization* take place, which sometimes are quite similar to the ones on the individual level. Especially anxiety and insecurity are phenomena that can easily spread out and affect others (O'Neill and Lane, 1995) and even lead to fatalistic group thinking.

> *"A firm size of about 30 millions of revenue is currently discussed. This means 200.000 per employee, indeed 100 employees are redundant. That's it. Inside of the firm you are relatively quickly informed about things like that (…), which does by no means improve the working climate in the firm. Because everybody is afraid: Now, it's my turn. It is this very anxiety that exists in our heads since the "Wende," that you say to yourself, my goodness, how long will it go on?" (82, 94)*

Another collective phenomenon worth recognition on the background of the specific East German situation is the ongoing decline of company tenure - often caused by the fraud of psychological contracts (Argyris, 1960; Singh, 1998).

Last but not least it must be considered how far the *implementation of future personnel measures* will be influenced by the layoff experiences (Thomas and Dunkerley, 1999; Wiesenfeld *et al.*, 2000). In fact, this is also dependent on the personal résumé drawn by each management executive with respect to those processes. Several estimate their own behavior as overall positive. Without explicitly assessing their own performance and out of a pragmatic perspective they consider the experiences made herein even as highly valuable. On the other side, however, there are some interviewees who critically comment on the past events, indeed first of all blaming others. Here, some individual learning processes (Noer, 1993) may be expected.

> *"There is an information stand about the staff meeting of last December. (…) There, they were informed who will remain and who will not. I mean that's a procedure that is so inhumane, a few days before Christmas. This profoundly impressed me and resulted in a lot of comprehension about how those people may feel…" (80, 153)*

Finally, there are even accounts to be found demonstrating that some people just aim at consciously suppressing what has happened. One may assume those management executives to be widely unprepared in case of forthcoming layoff processes.

The coping typology

As the second main outcome of the data, four coping patterns could be deduced (cf. figure 5). With the help of this coping typology the large variety of ways to be found in the model should partly be consolidated and integrated. Moreover the typology may enhance the reader's understanding of the coping model. These four types, of course, do seldom exist in pure form. Most often the interviewees incorporate some different pattern combinations.

The compassionate

Perception: The compassionate perceives the layoffs highly emotionally. Not only does he/she understand the pains and problems in his/her environment, but he/she also partly identifies with them. Sometimes he/she feels guilty even without being accused.

> *"Well, I was heavily impressed by all this. Because to tell a colleague 'I do not need you any more!' although he may had worked well over years, that's a hard job to do." (7, 181)*

Legitimization: It is important for the compassionate to be closely related to the affected employees. Therefore the reference to internal actors - be it the "victims" or the "survivors" - is the key source of his/her legitimization. Moreover, he/she tries to demonstrate a highly social attitude.

> *"They conceived that in the end we were just an executive organ. There are no frictions about that..." (70, 315)*

Assimilation: The compassionate makes his/her sympathy with the persons to be laid off explicit. Moreover, he/she is engaged

Type / Characteristic	The compassionate	The dissociative	The conscientious	The fatalist
Perception	Personal - emotional	Logical-inductive	Logical-deductive	Fatalistic
Legitimization	Reference to internal actors, to social attitude	Distance from internal actors, reference to modern attitude	Reference to own performance, distance from internal actors	Fatalism, reference to own critical attitude
Assimilation	Sympathy, engagement	Distancing, diminishing, weighing up different goods	Sense of duty, weighing up different goods	Fatalism
Risks	Emotional overload	Social isolation	Compulsive character	Victim, paralyzing the workgroup

Figure 5: Four types of coping with layoffs

in providing the "victims" with some concrete support - much more than what could be expected. Thanks to his/her high engagement and commitment the compassionate is a key person for the implementation of the layoff and for the future (re-) stabilization of the work group and the whole enterprise.

> *"I bothered to help wherever I could and with all my personal contacts, to provide some alternative jobs to the people. I succeeded to do this with some young engineers and also with several designers. I did not succeed to do it with all of them, that's clear. But I bothered to do so." (17, 352)*

Risks: A clear caveat for the compassionate is his/her emotional overload. Some of them perceive their limits too late: they fail to set clear priorities, they neglect their core tasks and may be endangered with a psychic breakdown.

> *"May be, if all other aspects had been okay, if all the rest in the firm had been excellent (...). But besides the fact that I liked my job and that I liked to work with my colleagues, all the rest has been destroyed in my view. And this was the moment when I said: No, before I clash with my nerves, I must leave." (101, 23).*

The dissociative

Perception: The dissociative tries to distance himself/herself from the whole process. Thus he conceives the layoffs in a pragmatic, logical manner, as something natural.

> *"At that time it was appropriate. We wanted our firm - we all agreed about that - to survive. And we also knew that not all of us could stay, this was completely clear". (44, 144)*

Legitimization: With respect to this the dissociative legitimizes himself/herself on the one hand by distancing from internal actors - namely the directly affected persons - and on the other hand with reference to a modern attitude, conceiving layoffs purely objectively.

> *"Of course this measure was taken following a well considered conception. And I already told you that even today we are still about 260 employees. A huge layoff or even mass redundancy, I mean mass redundancy with obligation to register, did not occur." (9, 124).*

Assimilation: As a consequence of this, the dissociative's sympathy is reduced. Self-protection is his/her key target. Moreover, he/she develops a detailed argumentation to diminish and to qualify the layoffs, often weighing up different goods.

> *"During that time we had to handle several court cases about dismissals. This was really not very comfortable. You could just cope with this when having in mind the higher good and the necessity. Because with a staff number like this it was not possible to continue to produce efficiently." (1, 124).*

Risks: The dissociative risks to lose the ground, especially in the case of being a member of the higher management. His/her speech and behavior are more and more perceived as cold and emotionless by his/her personal environment, he/she more and more loses charisma and motivation skills. The number of accusations and conflicts increases and sometimes his/her fate is social isolation.

> *"What kind of problems do those people have with me? In fact, I do not have much direct contact with them (...) This was fairly attributed to me, well, I am not sure if you know the expression 'unapproachable'. (...) And so I had, because of my colleagues advised me: 'Don't let yourself be provoked, such things, think about what you say in the production plant." (3, 473)*

The conscientious

Perception: The conscientious also perceives the situation fairly pragmatically, namely to understand the layoffs in a logical-deductive manner, i.e. as a necessary consequence of the market economy rules.

> *"Just about personnel we could speak the whole evening about how the new situation impacted on the personnel and what the consequences were. Step by step we made a so called reduction of personnel. From 3200 at the beginning in 1990 we are currently at about 570." (3, 31)*

Legitimization: The conscientious derives his/her legitimacy from the conviction on the one hand to act highly objectively and on the other hand just to fulfil his/her duty. According to this the conscientious often refers to his/her own (high) performance, sometimes even connected to distancing from internal actors. So, he/she is quite similar to a single fighter.

> *"I have no time to consider what Mister X or Mister Y may think about me and how we can deal with each other. I said, on a global level there is no time for things like that. (...) Yes, I must say, I did not consider the emotions so much because I said, I am highly single-minded." (11, 263)*

Assimilation: A high sense of duty is the key orientation point for the conscientious. He/she concentrates on working pragmatically. His/her objective, emotionless perception helps to overcome negative feelings or scruples. In fact, while the dissociative tries not to see the pains, the conscientious force himself/herself to closely watch it until the horror looses its pains.

> *"Of course, during the first round you feel depressed, you want to go out quickly and not to see all this. But then you understand that it is just a job like any other (...). More and more, without having consciously realized it, you become experienced and you handle the situation very pragmatically. And I am convinced that in this job you cannot afford to be emotional. (...) You have to suppress what you feel at all or for anybody. You just have to go through it." (16, 255)*

Risks: It is obvious, therefore, what the risks for the conscientious are. He/she has a certain tendency to become compulsive (Kets de Vries and Balazs, 1997) and to get stuck on a certain idea. Sometimes this leads to a sense of ruthlessness or the conscientious even works himself/herself up into blindly following the chosen course.

> *"Thus, there is a huge burden lying on my shoulders. So, I am not ready anymore to be the good uncle, but I will demand performance. And everybody who does not deliver this performance must say goodbye." (69, 472)*

The Fatalist

Perception: The main characteristics of the fatalist are a pessimistic world-view and a strong perception of external control (Rotter, 1966; Heckhausen and Schulz, 1995), i.e. to be convinced that the own fate is mainly determined by factors outside of the own frame of action. The layoffs, therefore, are seen as something, which can be neither influenced nor changed. The fatalist feels to be the victim of bad and fateful circumstances.

> *"All have been taken together and then it was said who will remain. It was not said who will be laid off, but just who will remain. And if your name was not mentioned you knew that you are a part of it..." (57, 624)*

Legitimization: The fatalist legitimizes himself/herself with reference to those superior forces. Moreover he/she refers to his/her critical attitude, especially of those actors who are perceived to be responsible for the layoff.

> *"A considerable number of people profited. Not only people from the West but also former SED members (the GDR state party - the author) managed to go ahead and to profit at the expense of their own colleagues and their jobs, we know that. There was a lot of - I dare to use the word explicitly - rubbish..." (80, 32)*

Assimilation: The fatalist's assimilation is strongly impressed by those superior forces. From time to time, the fatalist may wake up from this lethargic sleep, and some antagonistic emotions, such as anger, critics or anxiety may erupt. However, this is most often of short duration. At least, he/she usually feels to be well integrated in his/her workgroup, which constitutes a relatively stable environment where he/she is not expected to act dynamically.

> *"But after four years, we face again the situation that some will be laid off. Now we do not consider it very hard, since we got used even to something like that..." (49, 93)*

Risks: In fact, the group integration also bears a considerable danger since fatalistic management executives may risk to affect and to paralyze the whole group. So, while the upper management feels satisfied about the quiet work atmosphere many employees already took the inner exit...

> *"There are institutions to address, like the trade union or the labor court, but you know well that most people don't do it because they say, until I get through there… in the end, it's not worth it. Thus, you duck and try to work so that you don't give offence to your employer, so that he cannot say: Well, I must dismiss that man..." (10, 523)*

Conclusions

The coping model for management executives involved in layoff processes developed and described in this article should enhance a better understanding of those complex processes regularly taking place in a lot of companies. Regarding the combination of process and variation aspects may help to further promote future research work in this field. Moreover, it became visible throughout the whole discussion that the model makes several references to recent research, such as the three-step model by Wright and Barling (1998), the executioners' typology by Kets de Vries and Balazs (1997) or some studies focusing on individual interpretation and legitimization processes with key events (Isabella, 1990; Sronce and McKinley, 2003; DeWitt *et al.*, 2003).

However, we should not fail to point out the limitations of the coping model: Firstly, there are certain shortcomings regarding the qualitative approach. The interview accounts indeed remain the personal constructions of the interviewees. They can be analyzed and interpreted but by no means be made objective or representative. Hopefully, future research work will enhance the combination of qualitative and quantitative methods and focus on both, qualitative as well as quantitative aspects (e.g. the personal characteristics of the observed persons) of the topic. Secondly, the analysis of the data presented must always consider the background of the East German transformation process. To transfer and prove the coping model and its outcomes within different contexts may be promising, although it should be done with great care which was pointed out by recent intercultural studies (Segalla *et al.*, 2001).

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Key words

Layoffs, coping process, East Germany, transformation process, managagement executives.

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Customer Acquisition and Retention Strategies in Financial Services

V.Raman Nair

Abstract

Acquisition and retention of customers in the new global economy of competition and frequent change requires building relationship with customers more than ever before. Financial service firms too are reengineering their processes using Customer Relationship Management (CRM) tools to develop long lasting relationship with customers. CRM has to be at the core of any business strategy to deliver the triple benefits of increased customer retention, enhanced customer satisfaction and better hand holding for high value customers.

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Acquiring new customers and keeping existing customers are the major issues for any organisation today. Business leaders are racing to develop the analytical and technological tools that will help them identify, attract, and retain by building relationships with precisely those customers they want. They realise that they must evolve their marketing strategies, operating structures, and systems to confront the sophisticated, information driven marketing models wielded by non-traditional competitors and web-enabled financial service firms.

Financial service firms have been facing intense competition, decreasing product differentiation, and comparable prices and are realising the importance of service as a differentiator, and the need to bring changes in processes and ways in which an organisation operates so as to have a customer centric-view. These processes can be reengineered using Customer Relationship Management (CRM) solutions, so as to acquire and retain valuable customers through one-to-one marketing.

Conceptual Background

There has been considerable academic interest in customer relationship management strategies, applications and processes, with some 600 papers published in the last five years (Romano, 2001). CRM means different things to different people (Winer, 2001, Goodhue, 2002).

A CRM system, by its simplest definition, is a process to compile information that increases understanding of how to manage an organisation's relationships with its customers. In this simple view, a CRM system consists of two dimensions, analysis and action (Tony Cram, 2001). More formally, CRM is a business strategy that uses information technology to provide an enterprise with a comprehensive, reliable, and integrated view of its customer base so that all processes and customer interactions help maintain and expand mutually beneficial relationships (William G. etal, 2004).

CRM is a holistic business philosophy that enables people, processes and technologies to focus on building appropriate customer relationship based on value chain propositions that all parties concerned want (Michael, 2003). It is a concept, based on a simple premise: maximise the value of the business to each customer, maximise the value of the customer to the business.

Customer Relationship Management (CRM) is a codependent combination of business strategies, processes, people and supporting technologies to profitably anticipate understand and serve customer's needs. CRM is primarily a business process and strategy rather than a technology and has three components: (Gray & Byun, 2001).

❑ Customer: Good customers who provide more profit with fewer resources are limited because customers are knowledgeable and competition is powerful.

❑ Relationship: Communication and interaction is required between the customer and the company. CRM involves managing this relationship as to make it mutually beneficial and more profitable.

❑ Management: The marketing department is not the only department responsible for CRM. Rather corporate change in culture and process must occur. Corporate knowledge is deduced from the collection of customer data and this leads to activities that take advantage of the information and market opportunities.

In short CRM is:

☞ A Business strategy to select and manage customers to optimise long term value

☞ The implementation of customer-centric business strategies

☞ The art/science of gathering and using information

CRM and its Functions

CRM is an organisational process for managing customers (Meltzer, 2002) and has six basic functions:

❑ Cross-sell: selling a customer additional products/services.

❑ Up-sell: selling a customer higher-value products/services.

❑ Retain: keeping desirable customers (and divesting undesirable ones).

❑ Acquire: attracting (only) desirable customers.

❑ Re-activate: acquiring lapsed but desirable customers.

❑ Experience: managing the customer experience at all contact points.

CRM and Information Technology

CRM is essentially gaining the most information, ultimately knowledge, about a client, and central to these requirements is gathering data. Data can include: shopping preferences and habits, levels of income, education, family status or size, a whole gamut of information about the customer can make up the data. Data is collected on the transaction history with the customer in various forms (Schroeck, 2001). Every time the customer interacts with an organisation there is some data collected.

CRM solutions presented itself in the late 1980's and early 1990s. CRM software packages emphasise automating and standardising the internal processes, which relate to acquiring, servicing and retaining customers. The focal points of implementing these solutions are to make the customer an asset. Customer loyalty is improved by CRM solutions.

Although a large portion of CRM is technology, viewing CRM as a technology-only solution is likely to fail. Managing a successful CRM implementation requires an integrated and balanced approach to technology, process, and people. (Injazz et al, 2003).

CRM as a Marketing Tool

An organization exists to satisfy the customer's needs and this implies a need to acquire information before, during and after the sale. The information collected can be put to use by the organization to identify, attract, differentiate and retain customers.

Today, the focus is on selling more products to existing customers to improve profitability. Customer focused strategies require CRM to help acquire customers through various touch points and translate operational data into actionable insights for proactively serving customers (Express, 2001).

CRM from a marketing perspective identifies and targets best customers based on recency, frequency and monetary scoring (RFM) (Xu et al 2002). RFM enables customers to be arranged in terms of recent purchases, frequent purchases and average purchase amount so that effective marketing strategies aimed at specific groups can be evolved.

An organization to be successful must aim all of its efforts at satisfying its customers, at a profit, that is, managing customer needs profitably. This means that organization must create, deliver, and communicate customer value more effectively than their competitors. Such market driven organizations are marked by 'a superior ability to understand, attract and keep valuable customers,' and has three specific components of market orientation: (1) an externally oriented organizational culture with a focus on added value; (2) distinctive capabilities in market sensing, relationship building, strategic thinking; and (3) a configuration that enables the entire organization to anticipate and respond to changing customer and market conditions (Day,G.S.,1999).

Marketing financial products and services has always been an information and relationship sale. The user of financial services reveals a lot through his or her usage patterns. This helps the service provider to design customer friendly products and packages, as well as offer superior levels of service. Shared relationships with individualised customer care based on specific customer history and preferences are strengthened. Service costs and support is decreased when customer satisfaction is increased.

CRM in Financial Services

Today's financial service customers wield greater power than ever before. Across the industry, customers enjoy unprecedented choice driven by general growth of competing products, channels of delivery and accessibility. Acquisition and retention of these customers is possible by analysing and understanding customer behaviour and applying this knowledge to segmentation and propensity models; adapting the sales force and to be driven by customer preferences and needs research; and using customer knowledge to establish corporate-wide strategies.

Implementing CRM in financial services is challenging as the industry is in a very data intensive, complex business. Traditionally, financial service business had been product centric and the implementation of CRM which is customer centric data creation will require heavy investments.

Financial service providers have been emphasizing customer service, but excellence in customer service means maximizing the value of each customer interaction, building revenue and loyalty through a superior sustained customer experience. Metrics should be put in place to measure customer satisfaction and loyalty. These metrics should focus on customer needs, expectation, concerns and desires.

CRM with Business Intelligence tools can help financial service firms monitor the ebb and flow of customer behaviour giving them a holistic 360-degree view of their customers. This enables segmenting customers based upon profitability and investing and aligning the organisation to focus on the most profitable; understanding the relationship between customer value, attrition, delinquency, and balance level metrics; and understanding share of wallet for the most valuable segments and developing strategies and tactics to grow that share.

CRM for Customer Acquisition and Retention

Evolution of CRM is a result of corporate concern over customer acquisition and retention. Firms are spending aggressively to acquire new customers and protecting existing customers.

CRM is the process of identifying, attracting, differentiating and retaining customers. CRM allows the firms to focus its efforts disproportionately on its most lucrative clients (Hoffman, 2002). Given the high cost of acquiring new customers, increased efforts are being made to retain existing ones – particularly in areas of depressed demand. Firms have to ensure it satisfies customers and offers variety such that the customer comes back and repeats transaction with the same organization.

Studies in the past few years have quantified the benefits of long-term relationships with satisfied and loyal customers. A shift in retention of as little as five percentage points seems to account for more than 20 per cent improvement in productivity, which in certain industries can increase profit by 50 to 100 percentage (Richard,1996). One dollar spent on advertising yields less than $5 in incremental revenues, compared to one dollar invested in creating a good customer experience, which can yield over $60 in incremental revenues (Hurst,1999).

Life time Value (LTV) or customer Life Time Value (CLV) or Future Customer Value or simply customer value may be used to assess the value of relationship the customer has with the organization.It is widely used as the basis for evaluating CRM and Database Marketing Initiatives, and is now identified as a standard by the Database Marketing Institute (Hughes,2002). The idea is that the worth of the customer relationship to an organization can be evaluated by adding up the revenues and costs associated with servicing that customer over the lifetime of the relationship, taking into account the future behaviour (such as churn) and the time value of money (Berger et al1998). As such it represents the Net Present Value of the customer relationship.

The aim of CRM is to produce high customer equity. Customer equity is the total of the discounted life time values of all the firm's customers. Clearly the more loyal the customers, the higher the customer equity (Kotler, 2003).

As the financial service market grows increasingly competitive, firms will compete more and more on their ability to serve customer profitably over time. Long-term customer retention in competitive markets require the service provider to go beyond mere basic satisfaction and to look for ways of establishing ties of loyalty that will help ward off competitor attack.

Organizational Commitment

The objective is to focus on customer relevance. There is a critical linkage between customer intelligence and business intelligence that will drive success. Organizations should understand how customer dynamics influences business results and the extent to which organizations can influence customer dynamics. This requires management to understand and get committed to CRM as a strategy to acquire and retain customers so as to optimize profitability. CRM should be seen as a strategic response to a set of customer, staff and business needs. Successful implementation of CRM requires company wide, cross-functional, customer-focused business process re-engineering.

A case study of a CRM implementation at a UK based manufacturing company illustrated that CRM is a complex and holistic concept, organised around business processes and the integration of information technologies. The study highlighted that implementing CRM requires effective leadership, sourcing, targeting and evaluation strategies (Bull, 2003).

Executive management that understands that building employee loyalty is critical to building long-term success in customer loyalty is ahead of their competitors. Companies that focus on building loyal employees report positive effects on customer profitability and shareholder value (Reichheld,1996). Every employee can come into contact with customers, making each and everyone of them an advocate or an opponent. Employee retention is not only critical for cost efficiency but an important factor in revenue growth as well, because of its direct link to customer acquisition and retention. (Creating a Proactive Customer – Centric Program, Periscope Consulting, 2003).

Banking, Insurance and financial services are the sectors that shall benefit most from the CRM practices and technology (Sandeep, 2001). Although CRM depends on, and is driven by cutting edge technology, it only works when supported by the corporate culture that embraces customer-focused aims.

Effectively implemented, CRM can help financial service firms leverage profitable customer relationships over time. Successful adoption is grounded in strategy with technological engines.

CRM as a Business Strategy

CRM is a business strategy where an organization takes a comprehensive view of its customers, current and potential new acquisitions. The strategy is implemented through the building and maintenance of long term relationships.

Managing customer relationships, knowing customers and anticipating their evolving service needs are the essential features of a strategy. Such a strategy ensures customer satisfaction, and retention (Chattopadhyay, 2001). There is an urgent need to keep customers satisfied and loyal, more so in a world where the competition is one click away and switching costs are even lower.

Conclusion

CRM is basically the end point of understanding the requirements and interaction with customers to provide the customer with a high level of service they need, want and demand. The real potential of CRM is the capability to proactively manage customer relationships over time driving profitable transactions by knowing the impact of activities on consumer behaviour before they order.

Effective customer relationships will continue to develop as the most valuable assets of prosperous financial service institutions in acquiring more customers and improving profitability. CRM has to be at the core of business strategy and its success lies in leadership, people, practices and processes. Rigorous approach for customer segmentation, acquisition and retention are perquisites. Value propositions must be clear. The 'how' of executing strategy – its operationalisation – must be mapped into real processes, activities and tasks. These elements, then, can ultimately be empowered by technology to deliver the triple benefits of increased customer retention, enhanced customer satisfaction and better hand holding for high value customers.

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Tariff Rate Quotas: An Economic Analysis of Agricultural Policies for Sugar: With Special Reference to the US

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Abstract

This paper intends to use theoretical economic models to explain U.S. sugar policy and show the benefits and costs of U.S. sugar policy to different groups. Secondly, some of the benefits and costs of liberalization of the U.S. sugar regime will be discussed. Eventually, the tariff rate quota system in the United States should be eliminated, however, concerns for some of the unwelcome effects of liberalization and the potential for harm in many foreign markets make it clear that tariff rate quotas should be eliminated only on a gradual basis.

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Tariff and quota policies have long altered world trade with various distorting effects benefiting particular sectors while having detrimental effects in others. In fact, many times the full effects of trade restrictions remain largely misunderstood by policymakers. A classic example of the misunderstanding of the effects of trade barriers and their potential to cause harm to international trade is clearly seen in the American Smoot-Hawley Tariff Act of 1930. Although tariff barriers had been historically rather low, the Smoot-Hawley Act substantially raised U.S. tariffs and lead to retaliatory increases in tariff barriers around the world. Although it is doubtful that the Smoot-Hawley Act worsened the severity of the Great Depression in the U.S., it is clear that the series of retaliatory barrier-creation and mutual punishment policies instituted around the world dampened world trade and thus, most potential growth benefits of trade were lost.[1]

Over the course of the twentieth century and into the new millennium, restrictions on trade have been lowered and an overall emphasis on a return to free trade has dominated policy discussions, must notably with the creation of the GATT after WWII and its relatively recent replacement by the WTO, as well as various regional free trade agreements such as NAFTA and EU agreements. Although trade barriers have decreased or been eliminated in many respects, sugar remains subject to a high degree of trade barriers as well as export subsidies. Borrell and Pearce have found that over 80 per cent of world sugar production sells over the world market price for sugar and that 40 per cent of sales reap prices 50 to 400 per cent higher than the world market price.[2] Among exporters, only Australia, Brazil and Cuba are free traders while producer subsidies in other countries add up to $18 billion a year which is roughly one third of the total wholesale cost of sugar.[3] The EU stands as the largest subsidizer of sugar by subsidizing production within the EU as well as production in such countries as Swaziland and Zimbabwe while the U.S. subsidies foreign production in the Philippines and the Dominican Republic. As a result, prices are double the world price in the EU and the US market generally offers prices 80 per cent above world price.[4] In the 1990s the world price for sugar varied between $0.09 and $0.13 per pound while U.S. prices ranged from $0.25 to $0.29 per pound.[5]

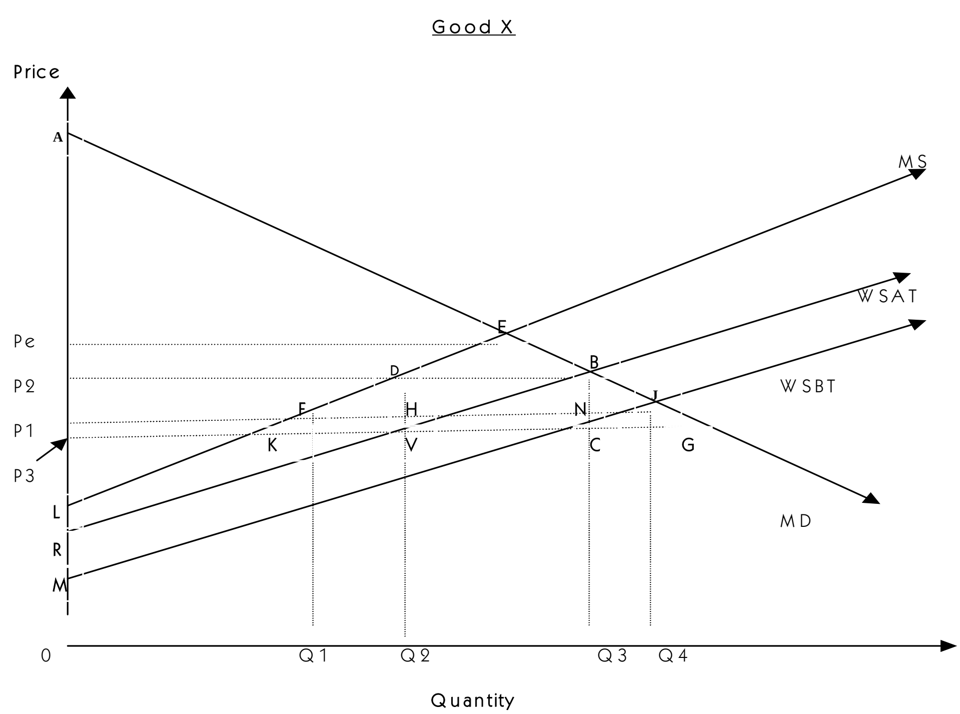
The EU, India, and Brazil are the largest sugar producers, per capita consumption is highest in Cuba, Brazil, and Austria and U.S. per capita consumption in 1995-1998 averaged 72 pounds, above the world average of 44 pounds.[6] While large differences in supply and demand exist in the world market, it is clear that prices are determined largely by protectionist policies and the net effect is that consumers in most markets pay prices several times higher than the world price while producers reap billions in subsidized payouts. While production subsidies and protections benefit only a small percentage of world population, artificially high sugar prices affect nearly everyone. However, the producers of sugar being a relatively small and highly organized group face great benefits from protectionist policies and thus an incentive to be informed and involved in political policy-making. On the other hand, the costs of protection are spread among consumers so that while the overall cost of protection is in the several billions, the marginal cost faced by each consumer is relatively small. In addition, the majority of sugar is used in the manufacturing of sweetened food, so that the artificially high price of sugar is hidden in the overall cost of many food products. Thus, the average voter is unaware of costs imposed by sugar subsidies and faces little incentive to organize against it.[7]

This paper intends to use theoretical economic models to explain U.S. sugar policy and show the benefits and costs of U.S. sugar policy to different groups. Secondly, some of the benefits and costs of liberalization of the U.S. sugar regime will be discussed. Eventually, the tariff rate quota system in the United States should be eliminated, however, concerns for some of the unwelcome effects of liberalization and the potential for harm in many foreign markets make it clear that tariff rate quotas should be eliminated only on a gradual basis.

Sugar Policy in the United States

Economic models of a large country (defined as a country that may influence the world price of a commodity through its trade policies) involved in tariffication suggest that under certain circumstances, the costs of tariffs may be shared with foreign producers, creating a beggar-thy-neighbor policy. These effects may be demonstrated on the following graph.

Figure 1.1 Effect of Tariff on a Large Country



The line WSBT is the world supply before tariff and it includes the domestic supply (MS) and sets the world price at P1. After the tariff is employed, world supply shrinks to WSAT (world supply after tariff) and increases the world price. The tariff also discourages imports, so imports are reduced from the previous level of Q1Q4 to Q2Q3. The consumer surplus is reduced from triangle P1JA to triangle P2BA and producer surplus is increased from triangle P1FL to P2DL. The triangles FDH and NBJ represent the deadweight loss to the economy. The rectangle DHNB shows the revenue to the government as a result of the tariff. Finally, considering that without the tariff, Q3 would have sold for P3 (an unobservable price) we can assume that foreign producers share some burden of the tariff. This can be calculated by measuring the distance between P3 and P1 and multiplying by the amount of imports Q2Q3. The amount of the tariff burden placed onto foreign producers is then shown in rectangle HVCN.

One might expect the preceeding scenario to be the case for the U.S. as it is a net importer of sugar that is large in the sense that its policies may influence price. However, the tariff rate quota system employed by the U.S. is more complicated than general tariff models as it also employs a quota system and rather than burdening foreign producers, has the effect of creating rents for foreign producers with access to the U.S. market. Therefore, the previous theoretical model does not accurately reflect sugar policy in the U.S. and a different model is necessary. To see why an explanation of U.S. sugar policy is needed.

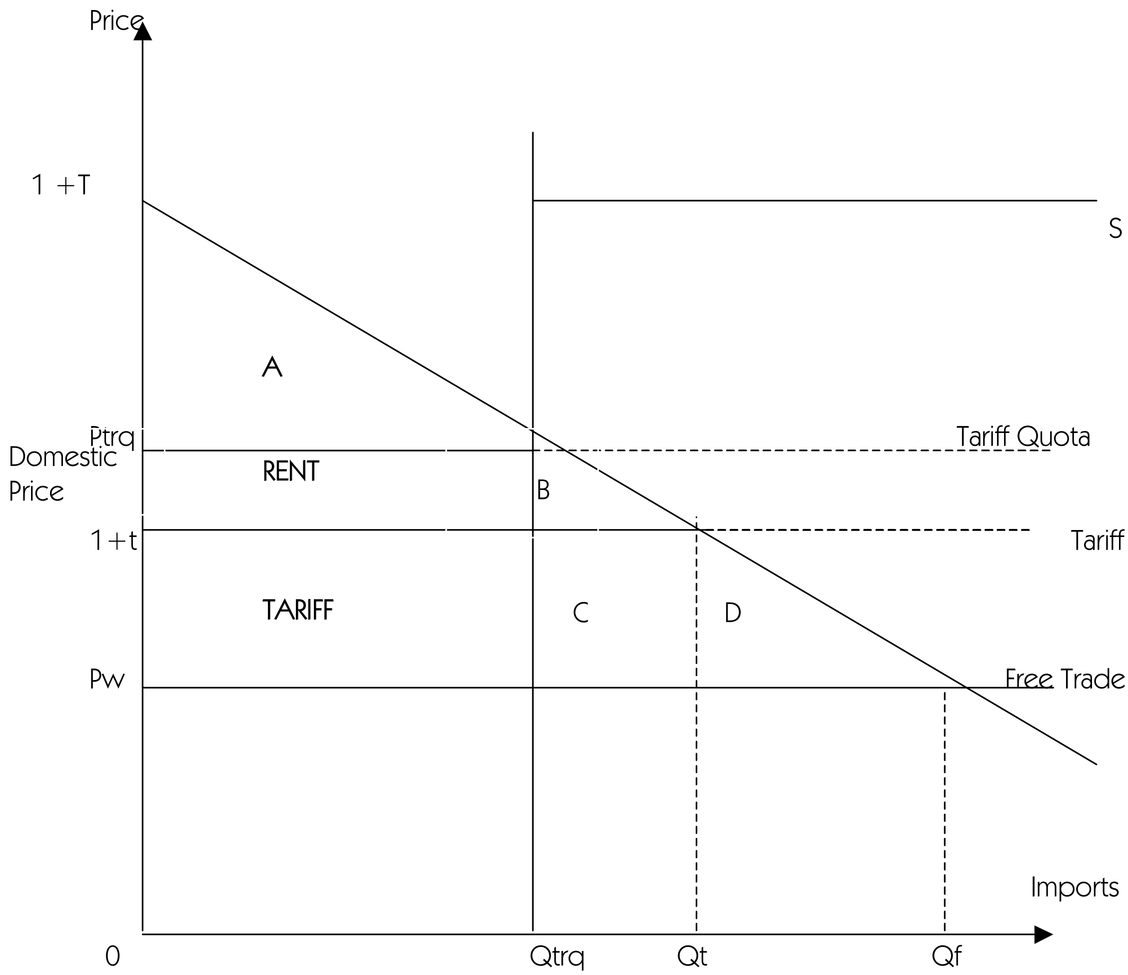
The first sugar tariffs instituted in 1789 were designed only to raise revenue for the U.S. treasury as no domestic production of sugar occurred at that time. However, the U.S. sugar industry emerged in the 19th century and tariffs have remained constant in U.S. policy with only a few rare periods of tariff removal. In 1990, sugar policy was modified to include two features, nonrecourse loans to processors and tariff rate quotas (TRQ).

The Farm Security and Rural Investment Act of 2002 (2002 Farm Act) provides for the USDA to make loans at the rate of 18 cents per pound to sugarbeet processors and 22.9 cents per pound for refined sugar.[8] Sugarcane and sugar beets are highly perishable as well as bulky, this means that processors must not delay in turning the raw cane and sugarbeets into refined sugar. However, market prices tend to fluctuate, exposing processors to risk selling for low prices during downward dips in domestic market prices. The loan program provides funds to processors rather than actual producers so that the processors may afford to store the sugar rather than sell at undesired prices. The government loans may be taken for a maximum term of nine months and this allows processors to purchase and refine sugarcane and sugarbeets, they are then required to pay producers an amount proportional to the loan. These nonrecourse loans then allow processors to forfeit the collateral for the loan (refined sugar) in lieu of payment if the domestic market price for sugar falls below the loan rate, and in this way, the loan program works as a price floor guaranteeing a minimum price for producers and processors. The loan program offers protection to processors from fluctuating market prices and the program costs taxpayers nothing as long as the market price remains above the loan rate.

Normally, the sugar is sold above the loan rate, and processors are able to repay the loans at no cost to the government. However, there have been times, such as in the 1999-2000 season, when sugar prices fell largely due to an unusually productive harvest. During this time the U.S. government, was forced to take sugar as payment for many loans and even paid some producers to plow under unharvested crops in order to reduce supply and increase domestic prices.[9] Still, this is a rare occurrence and the U.S. sugar policy does generally operate at no cost to the taxpayer. Between 1996-2004, the sugar program actually created $24 million in revenue for the federal government.[10]

Obviously, the success of the loan program is contingent upon domestic prices being much higher than the average world price. To maintain high domestic prices, tariff rate quotas (TRQs) are used. A TRQ is a two-tiered tariff designed to constrain the amount of imported sugar. Under the two-tiered system, the U.S.allocates import quotas to 40 countries based on their imports to the U.S. during the representative period 1975-1981 (with the exception of Mexico who receives special allocations of quotas and reduced tariff rates under NAFTA provisions).[11] Imports of sugar within quota allocations incur the first tier (low) tariff ranging from 0 to 0.625 cents per pound. Any imports above the allocated quota face a higher second tier tariff (15.82 cents per pound in 2000) that effectively discourages additional importation.[12] Under the TRQ, the U.S. has limited imports in order to maintain high domestic prices while exceeding GATT and WTO rules for minimum importation levels.

Figure 1.2 Welfare Analysis of TRQ rationing[13]



Since the TRQ model imposes a two-tiered tariff, the graph displayed above does not reflect the situation. A new figure is needed.

The new model shows the world supply curve as a horizontal line at 1. "Free trade" on the graph represents the lowest price and highest consumer surplus (triangle A and all shaded areas).

The import supply curve shifts up to 1+t with the implementation of a simple tariff (without quotas). Under the tariff, imports are unlimited and the market clears at price 1+t with a lower quantity of Qt. Consumer surplus is reduced to triangle A + rent + B while D represents the deadweight loss to the economy and tariff revenue collected by the government is represented in Tariff + C.

Under the TRQ situation, imports are limited to Qtq. This leads to increased price at Ptrq as well as reduced consumer surplus (represented only by triangle A). Tariff collections are also reduced due to lower quantities of imports. At the same time, producers realize rents that they would not receive in other markets as they sell for Ptrq what the may produce at the cost of 1+t. We see then, that the reduction in consumer welfare is split between rents to producers and government revenues.[14]

This program benefits foreign producers to the extent that they have access to prices well above the world price in the U.S. market and it protects domestic producers of sugar at no cost to taxpayers. However, economists remind us that there is no free lunch, and this is observed when the cost of the program is passed not to taxpayers per se, but to all consumers of sugar and sugar-sweetened products in the form of prices much higher than average world prices.

As with any economic decision, there are those who gain from the sugar program and those who lose. Recently, several economists have created economic models for research intended to simulate the U.S. domestic sugar market, identify the costs and benefits of the sugar program, and estimate the effects of the elimination of the sugar program in part or in whole. A recent comprehensive study by John C.Beghin and others undertaken using a model created at Iowa State University reached conclusions similar to a number of other studies conducted with different models. The study found that domestic sugar producers gained $1 billion as a result of the sugar program.[15] While producers realize rents in the form of artificially high prices, the United States General Accounting Office has estimated that the sugar program cost U.S. sweetener users about $1.9 million in 1998.[16] The Behin study confirmed the GAO estimate of costs to consumers and also found that the deadweight loss to the economy was $532 million in 1998 and the net loss to the U.S. economy totaled $893 million.[17] The benefits of the sugar program are concentrated on less than 10,000 growers and seventeen of these growers receive almost 60% of the benefits.[18] One estimate concluded that for every dollar transferred to producers, consumers pay approximately $2.50 and that this is due not only to higher sugar prices, but because other substitute sweeteners receive higher market prices as well.[19]

As previously noted, this situation may be explained by the fact that the benefits of the policy fall on a small well organized groups while the costs are spread across millions of consumers and further hidden in the form of higher prices. An alternative view suggests that the policy is the result of Congress and the American peoples' willingness to assist sugar producers. As evidence of support for the domestic sugar industry and sugar growers, Jack Roney of the American Sugar Alliance points to high majorities of congressional votes in favor of supporting the sugar program and defeating proposed dilution of sugar provisions in legislation.[20]

However, Jonathan C. Brooks and others recently conducted a study to examine closely the effects of political lobbying and campaign donations on the creation of sugar policy. Brook's study examining the role of political contributions in voting behavior found that in 1985 an extra $1,000 donation from a pro-sugar PAC elicited a seven per cent increase in the probability that a congressman would vote in favor of the sugar industry and that the same contribution elicited an 11 per cent increase in the probability of a favorable vote in 1990.[21] Similarly, contributions from sweeter-user groups (consumer groups and groups of food producers who use sugar as an input) also elicited great increases in the probability of an anti-sugar vote. Overall, the pro-sugar lobby has historically outspent a smaller coalition of sugar-users, in the 1990 Senate vote, sugar interests spent $1.90 for every $1 spent by sugar-users.[22] While the sugar-users group remains relatively small and less effective than the pro-sugar lobby, opposition to the sugar program seems to be increasing with further free trade initiatives such as CAFTA and resistance from producers of sugar-sweetened foods may grow if the gap between U.S. and world sugar prices widens further.

Effects of Liberalizing the Sugar Program

As with any economic policy, the sugar program creates gains and losses for different groups and it creates incentives that would not occur otherwise. While the main interest involved may seem limited at first glance, a deep analysis of the situation reveals that interested parties extend well beyond the U.S. sugar industry and sugar consumers in the U.S. Other stakeholders would include but are not limited to:

- producers of substitute sweeteners both here and abroad that are affected by the price of sugar;
- consumers not just in the U.S. but worldwide who would face higher world sugar prices if the U.S. ended the sugar program;
- foreign producers who gain by having privileged access to the U.S. sugar market and those foreign producers who do not have the privilege to sell in the U.S.;
- producers who use sugar as an input;
- those industries that would be affected by decreased sugar production in the U.S. and increased production abroad

(these industries are often the opportunity cost of current producers—(e.g. U.S. sugar producers priced out of a more competitive market may begin to grow wheat or soybeans).

Obviously, attempting to weigh out the costs and benefits to various interested parties and make a recommendation for or against changes in the U.S. sugar policy is not an easy task. That being said, research on some possible cost and benefit changes may be useful.

First, American consumers clearly have a stake in reform of U.S. sugar policy. There is no doubt that although politicians and the American Sugar Alliance emphasize the fact that the sugar program operates without cost to the taxpayer, the American consumer clearly pays in the form of higher sugar prices. This may be good for the consumer's waistline, but since the average sugar consumption in the U.S. is nearly double the world average, it is probably safe to say that the detrimental effect to the consumers pocketbook outweighs any possible health benefit in terms of reduced consumption.

But if the sugar program were eliminated tomorrow, would consumers actually pay any less? The American Sugar Alliance offers evidence that they may not. Most convincingly, statistics from the USDA show that while real wholesale prices of sugar have decreased by 12% since 1982-1984, retail prices for sugar-sweetened foods have increased by 78%.[23] The argument of the ASA is that even if the sugar program is ended and the price of sugar drops dramatically, the savings will not be passed on to consumers in the form of lower prices, but instead absorbed by food producers. The evidence offered is not conclusive as it does not account for any number of other variables that might influence the price of sugar-sweetened foods. Still, the possibility seems likely especially considering that the imperfect competition among many sugar-sweetened foods may leave little incentive to producers to lower prices. For example, the breakfast cereals market is a strong oligopoly dominated by Post, General Mills, and Kelloggs. Even if sugar prices are reduced drastically, it is difficult to argue that any of these firms would have an incentive to reduce their price as their competitors would likely do the same, creating a potentially costly price war.

This consideration was taken into account by Beghin in his 2003 study. Beghin estimated the benefits to U.S. sugar consumers of elimination of U.S. government support of the sugar industry in 1998 under two scenarios. Under the first scenario, a partial pass-through situation was simulated where sugar refiners passed savings on to consumers in the form of lower prices for table sugar, but food processors retained the savings and did not reduce price. Under this scenario, consumers would have gained $769 million as a result of liberalization while food manufacturers would gain $999 million. However, if food manufacturers did pass the entire savings on to consumers they would have benefited by $1.9 billion and food processors would benefit by 85 billion as a result of increased sales.[24] Another factor to consider is the possibility that even the price of table sugar may not be reduced at the retail level due to declining competition in the retail grocery industry.

Liberalization would also obviously affect areas of domestic agricultural production outside the sugar industry as well. As the least efficient sugar growers and processors are pushed out of the sugar market, they will logically pursue their next best alternative and for many producers this will mean a switch to the production of other crops such as soybeans, corn, cotton, or wheat. This in turn will likely affect the domestic and possibly world market to some marginal effect and make these markets more competitive. Likely results could include decreased prices for products such as those mentioned above resulting in lower prices. In this situation loss of producer surplus probably outweighs gains in consumer surplus resulting in a net welfare loss since the U.S. is a net exporter of these crops.[25]

To further complicate matters, it should be noted that the effects of trade liberalization by the U.S. are contingent upon the policies of other actors with strong government intervention in the sugar market such as the EU. One interesting question, then, is what would be the effect of the U.S. liberalizing its sugar policy, while the EU retains its protectionist policies? In Koo's estimation of this scenario for 2004, world price would increase almost 33 per cent as a result of increased demand in the U.S. The additional consumer surplus would be $1.855 billion and loss of producer surplus would amount to $1.228 billion.[26] However, the benefits of unilateral liberalization by the EU are even greater. In a third scenario, the U.S. and the EU both liberalize. The effects of liberalization by both the EU and the U.S. would be that world sugar price would rise 68.2 per cent while the U.S. domestic sugar price would fall only 4.7per cent. Consumer surplus in this scenario would actually be less than if the U.S.

alone liberalized, but would still increase by $1.235 billion while producer surplus would fall only 681 million.[27] This suggests that many more U.S. sugar producers would remain in the industry under scenario two, therefore, the effects on other agricultural markets would be less.

Another consideration is that partial reform through reductions in tariffs and quotas is more likely to occur than complete elimination of trade barriers. Reform could take the form of either increased quotas for importers or decreases in tariff rates or both. However, largely due to political concerns, either type of reform is likely to be only partial.

Elbehri has studied the potential effects of partial reform and complete liberalization in the U.S. and the EU. Elbehri's study examined partial cuts of 1/3 to the over quota tariffs as well as increases to the import quotas of 1/3. The research concluded that the U.S. would experience an increase in economic welfare no matter if tariff rates were cut or quotas expanded or both. In the world economy, Elbehri and Koo's studies both find much more potential for benefits from EU liberalization than from U.S. liberalization. However, many exporting countries would actually experience a loss of welfare is quotas were increased.[28] This effect is due to the loss of rents. Although the exporters would be able to sell more sugar, they would sell for a reduced price. Elbehri's analysis shows that the effects of liberalization especially on sugar-producing LDC's are complex and vary from country to country and that some liberalizing situations may actually reduce the welfare of exporting countries. However, Elbehri's study did find that when liberalization occurs in both areas of tariff reduction and quota expansion for both the U.S. and the EU, most exporters benefit and those that do experience a loss of welfare experience relatively small losses.[29]

An understanding of the complicated effects of sugar trade liberalization leads those who might normally argue for more reform actually argue for reform in smaller steps. During very recent meetings regarding possible EU reforms, the LDC Sugar Group, a group of 19 of the least developed sugar exporting countries, advocated a slow price reduction of 20 per cent over 10 years coinciding with a relatively small increase in quotas. According to the LDC Sugar Group, "managed access at remunerative prices generates far more development in the LDC's than unlimited access at uneconomic prices."[30]

Still, the overall positive effects of complete removal of trade barriers in the sugar industry are considerable. Gains to the global economy from liberalizing sugar are estimated to be between $80-100 billion and liberalization is sure to greatly benefit many consumers and producers of sugar worldwide.[31] Sugar protectionism in the U.S. is especially difficult to justify since the vast majority of benefits from government intervention accrue to a small number of producers. Therefore, due to the potential gains from greater efficiency of production, the potential benefits to LDC's involved in sugar production, and the potential increases in consumer surpluses, the U.S. should work to reduce TRQs and the loan program.

However, in the face of evidence showing that liberalization may actually drain welfare from LDC's, elimination should be done in the form of steady reductions over a considerable time rather than the "shock therapy" method of total removal of government interference. Managing the gradual elimination will be difficult and no doubt some of the interested parties most vulnerable to the negative effects will experience losses due to the liberalization of sugar no matter how liberalization is implemented.

Although many would claim that liberalization may not ever occur in the U.S. due to strong political opposition by the sugar industry, it is clear that many factors are currently pushing for reform. First, is the emergence of groups who represent the interests of not only consumers, but big businesses in the foods manufacturing industry, such as the Coalition for Sugar Reform, who may effectively challenge the sugar lobby. Second, the expansion of free trade through increasingly powerful trade agreements such as NAFTA, and possibly CAFTA in addition to pushes for reform by the WTO are creating a momentum for liberalization. Considering that sugar is the only agricultural product in the U.S. which enjoys such strong protectionism, it seems only a matter of time until the sugar industry's benefits are revoked.

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[19] Ibid

[20] Roney, p.1

[21] Brooks, p.446

[22] Ibid p. 448

[23] Roney p.14

[24] Beghin, p.112

[25] Koo, p.349

[26] Koo, pp. 349-350

[27] Ibid

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Customer Relationship Management in Financial Services with Special Reference to Retail Banking in India

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Abstract

Customer Relationship Management programs allow the vale provider to track the customer interactions and collect customer data from all the three hundred sixty degree view and use this data to create new business intelligence for developing customized products and services, to reduce churn and enhance loyalty level. This research paper is an attempt to evaluate the issue of customer retention and rationale behind the strategy of customer relationship management. A model for implementation of CRM initiatives in financial services industry out of the research work conducted in two Indian banks has been suggested. This paper highlights the importance of CRM in financial services industry and suggests a set of growth drivers through effective implementation of CRM in retail banking industry.

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Indian banking industry has undergone sea change in both its customer-centric strategy as well as in technology usage to satisfy customers and retain them for long term. With the entry of the new private banks in the country, a fundamental change has taken place in retail banking with the market dynamics changing in such a manner that for a bank to succeed and profit, it now has little choice but to learn from and actively respond to customers' needs. The objective of the banks has to shift from the mere product-centric approach or for the simple front office courtesy to the customer-centric approach. Banks that have made this shift from are definitely better positioned to attract and retain the most profitable customers, and to do so in ways that further enhance profitability. This research paper aims at studying the implementation of customer relationship management principles in Indian retail banking sector; to analyze the need and drivers of CRM implementation in Indian banking sector and the challenges associated with it and also to suggest a charter for implementation of CRM in retail banks; to illustrate the CRM initiatives of two popular banks viz. HDFC Bank and Punjab National Bank.

The aim of implementing Customer Relationship Management Program essentially dwells on the achievement of a better understanding of the customers in order to develop closer relationships with the bank's most desirable and profitable customers, attain the lifetime value from customers and design the services of the bank in an optimal fashion so as to replicate that and drive business growth and profitability. CRM processes and technologies support a retail banking business strategy to build long-term profitable relationships with specific customers. Banks need to adopt CRM strategies in order to forge closer and deeper relationships with customers, with the goal of maximizing the wallet share of a customer to the organization. To this end, CRM provides a mechanism for being proactive in addressing customer needs and expectations and analyzing information from all channels and data sources to profile customers, predict churn, and project customer profitability.

Implementation of a CRM program makes it easier for customers to do business with the bank. Customers today want to decide how to transact business with their bank and expect to select their preferred channel and not vice versa. There is no advantage in forcing customers to deal with a bank's internal complexity and lack of flexibility. This is typically what happens when outdated structures, legacy systems, and layers of technology drive a bank.

From a bank perspective, CRM makes it possible to analyze customer information in order to drive more informed business decisions and actions, often in real time. Economically and competitively, a bank is in the optimum situation when the customer starts buying from the bank rather than being sold to.

CRM supports this by enabling banks to better understand customer requirements, even as they evolve; differentiate between customers via market segmentation; predict the likelihood of customer actions; evaluate customer loyalty, profitability, and channel effectiveness; and maximize marketing campaign performance.

Over-all objective of any CRM initiative is customer optimization. Customer optimization lies at the heart of CRM. It is obtained through a value exchange in which the bank makes an investment in a customer interaction in exchange for some desired behavior. If the bank wants a customer to buy more, stay longer, pay a higher price, transact through a different channel, and so on, then the bank must make the appropriate investment in the relationship. A CRM solution can provide the *process, methodology, and technology* to acquire the maximum value from customer relationships across every channel, over the lifetime of the relationship. Customer optimization is addressed along three dimensions viz: acquisition of new customers immediately profitable to the bank; retention of the most profitable existing customers for the longest possible duration and expansion of the customer's relationship with the bank, encouraging more purchases while shifting less profitable customers to lower-cost delivery channels.

The Retail Banking Challenge

With the focus of the change that has come in the retail banking over the last decade, the fundamental requirement for business growth in this sector though still remains the same-finding and leveraging new sources of revenue. This means reaching current customers and prospects in ways that encourage them to do more business. This again is a challenge not only for the nationalized banks in India but also for the private banks, and this is one of the most important aspects that determine the profitability of the retail banking operations in the country. When we look at the challenge from a customer perspective, banks are now offering so many products, services, and channels that efforts to sell new products often confuses the customer that what he requires and how does he derive more benefit from one product that would be better than others. From the bank's perspective, there are now so many customer touch points that it is difficult to determine which methods deliver the best results. But with offerings of the banks pouring on the uninitiated Indian customer the top of the rung customers have started to demand and expect more from the banking system.

Need for Implementing CRM Solutions in Retail Banking

There is a greater need for implementation of CRM in banking industry for various reasons. The following discussion analyzes each parameter that makes imperative for the bank to implement CRM and suggests the kind of strategic imperatives that need to accompany the efforts of solution to these.

Need to increase operating efficiencies: Typically the operating expenses account for a fourth of the bank's total expenses. Thus any increase in operational efficiency directly impacts the top line of the bank. A direct exponent of this is probably the ATM concept to shift the cash withdrawal, which was a major component of the branch business earlier, to increase the operational efficiencies to the desired level. This essentially arises as the response to the operational efficiency improvement. In order to increase the employee productivity as also the overall operational efficiency computerized operations act as a significant factor to increase the productivity.

Need to Derive More Value from Employees: With a focus on the reduction in expenses, most large banks have gone in for Voluntary Retirement Schemes, which are expected to reduce the expenses in the medium to long term. However effective substitution of these people with technological initiatives is essential to improve the bank's systems. With technology enabling automation and self-service, the remaining employees should be freed to handle more complex and higher value activities like cross/up-selling, personalizing products and services, etc. Such measures will have a more direct impact on the bottom line in the form of increased profits per employee. The focus on the aspects of automation and empowerment of employees is that a CRM solution will improve the quality of the work done by the employees, while definitely helping to increase the overall employee productivity.

Increasing Competition in Retail Banking: With increasing costs and risks of servicing corporate customers, banks in India especially foreign banks like ABN Amro and Standard Chartered Grindlays are beginning to look to retail banking as an avenue to raise low cost, low-risk funds. With an array of innovative products and services being advertised, consumers might be willing to switch banks if offered a better experience elsewhere. This while comes as an opportunity for the banks but also requires the banks to actually face the challenge of customer retention. Thus while it may make the acquisition of the new customers a lot easier, but the profitability driving loyal customers may be tough to find. The competition and the dynamics of the retail banking segment offers no choice but for the banks to develop relationship with the customers to actually retain the most profitable customers. The challenge lies both in the identification and retention of these customers.

Rising NPAs: With the directives even from the central bank to control the NPAs the banks are constrained to find a mix between new customer acquisition and conservatism in doing so in terms of the prevention of default. NPAs need to be kept in check and eventually reduced through better targeting and stricter credit and lending policies. Also this requires more caution in the sensitive retail-banking segment. This indicates a move towards development of better credit scoring systems. These systems are typically dependent on the development of data mining systems and better understanding of the customers in order to determine the better customers whose profitability of default is lower.

Increasing Importance of Fee-Based Income: With interest spreads being squeezed, there is a growing awareness regarding fee-based income. New private banks and foreign banks are the furthest ahead in this game, but older banks need to catch up soon. Now this is the most important reason for the development of the retail banking services, which allow for the development of specialized value added products to earn better revenues. Thus the future of retail banking services require more customized products and specialized products to generate better income potential. Thus what is required is a better understanding of the customers in order to be able to develop the requisite products to drive the profitability of the bank. This is particularly called value added services and products for most profitable customers.

Lack of Clarity Regarding Branch Banking: The older Indian banks with thousands of branches have an unparalleled physical network across India. Branches have a comfort feel that is unparalleled among all consumer touch-points and they can act as high-value transaction centers as well as facilitate universal banking. The new banks, on the other hand, must continue to drive home their edge in technology and aim to increase margins through low-cost convenience channels. Thus for the establishment of ATM network and development of the technology oriented customer interaction points. The Strategic imperative in such a situation is personalization, which will help, in augmenting cross/up-selling capabilities and channel integration and management. What this again requires is better understanding of the customers so as to find the opportunities of how to personalize the products as also to determine the customers who could be provided these kinds of services. The cross-selling or up-selling also requires the understanding of the habits of the customers in order to determine customers who could be the most profitable to serve and thus target them for other products.

Universal Banking: Banks have established skills in distribution of financial products. They are also the financial services providers with the best understanding of their customers. The banks thus have the capability to establish themselves as the complete financial solution providers. This needs process restructuring and partner relationship management to develop the understanding of the customer and identify the right portfolio of the products and services required.

Vasudevan Committee Recommendations: Several of these recommendations deal with forward-looking applications of technology for public sector banks. One can look forward to most major banks making technology investments along the lines recommended by this committee. There is a need for effective data warehousing and analysis capabilities. These technology systems need to be driven and oriented towards the better understanding of the customers and their segmentation on the basis of the profitability matrix.

So retail banks, to derive better profitability need to know the customers better and more importantly identify the right clusters among them to find the potential value drivers for the bank. The following matrix, with the bank's desire to find the right set of customers, can better explain this emerging need of retail banks.

The matrix shows the appropriate segregation of the customers that the bank desires, with high profitability and low cost to serve being the ones to aggressively target. The medium on both the dimensions should be under the normal process while the non-profitable, high cost to serve and low profitability customers need to be weeded out over a period of time so that the bank can serve the customers at a profit and can keep most profitable customer in the portfolio.

Indian banking organizations need to draw up a CRM strategy incorporating people, process and technology issues. Once this is done, an overall robust, flexible and scalable technical architecture must be formulated to account for current and future IT initiatives in accordance with strategy. Based on these, the banks can go ahead and devise an actionable organizational and technical strategy to operationalize customer relationship management programs. It requires a phased approach with a concrete focus on feasibility, impact and expected returns. Thus CRM is developed as a process and instrument for change. For retail banks, the net result of the CRM process is a clearer understanding of who your best customers are, how best to keep them and how to better increase their "wallet share" by knowing what to sell and how to sell it.

Thus CRM is more than just technology, it embodies a cyclical, or closed-loop, business process. CRM thus starts with capturing all customer information and enhancing it with descriptive and predictive data and analysis-data and analysis that reflects the bank's assessment of a customer's profitability, desirability, and risk. The result is a deeper understanding of customers and their behavior. This step is thus as such followed by the use of this understanding of customers to drive optimized service provisioning and to rapidly detect and best respond to opportunities and risks. With CRM being a closed-loop process, information that has been captured and enhanced is continually refined and refreshed. Finally, it is made available optimally, in real time across the bank and its touch points to drive all future customer interactions. It is thus this continuous cycle of information, analysis, and feedback that creates the knowledge necessary to develop "must have" products and services, optimizes customer interactions and delivery, enhances the customer's overall experience-and drives growth.

Key Drivers of CRM in Retail Banking

The development of the need for the establishment of the CRM system and the cost implications of the same need to be emphasized so as to determine the opportunity for the implementation of the same. The following classification divides the drivers of CRM in the retail-banking segment as internal and external to the bank. This compartmentalization is not unique though and also is not watertight and involves some issues of both in certain cases.

Profitability of the Customer

		Low	Medium	High
Cost to Serve	Low	N	A	A
	Medium	S	N	A
	High	S	S	N

Business and Customer Targeting Strategy

A: Aggressive N: Normal S: Segregation

Internal factors

The following are the internal factors that act as the drivers for the implementation of CRM by the banks in the retail-banking segment. The classification is on the basis of the drivers of the implementation of the CRM in the retail banking segment and the need generation for the same.

Improving Customer Satisfaction and Cross Selling: The establishment of customer satisfaction programs through new channels to market and bundling of services is a key challenge to the banks. With the acquisition of new customers and the retention of the older ones, with definite profitability segregation, emerging as the major perspective for banks, the understanding of the customers and development of CRM become imperative.

Increasing Share of Customer Spend: All banks are looking for opportunities to create higher value added services through lending, investment services provision and insurance. However a consistent problem faced by the banks is a difficulty in persuading customers to buy multiple products. This makes the job of the banks tougher in terms of handling a large number of customers and yet deriving the profitability out of them. As a consequence, banks are faced with a very large number of customers who make only a marginal contribution in terms of profitability but who are nevertheless important to support the infrastructure. Thus CRM initiatives become a must for the banks in order to increase the customer dealings on one hand and increasing the knowledge of their transaction business on the other.

Operational Performance: The operational performance of the banks is intimately connected with the cost cutting and better efficiency initiatives of the banks. The banking organizations that only have a strong retail presence find it more difficult to sustain a good profit performance when compared with those that have a strong commercial banking client base. Those that can control costs while still giving high quality service can grow at the expense of higher cost based organizations. Thus this is a major driver of the bank towards CRM implementation.

Competitive Pressure: With the continued entry of the new players in the market with very competitive products that are positioned to entice customers away from the more established players, improvements in customer service are a proven way of reducing the defection rate. Again this has to be taken care by the internal systems of the bank. To outscore the competition and have better profitability, the banks need to their customers and thus a pointer towards CRM.

Understanding Customer Lifetime Value: Understanding the lifetime value of the customers and providing a level of service appropriate to the value of those customers - giving better service to those customers that deliver (or will deliver) the greater share of income, is one of the key profitability drivers today. Thus what is required is an effective segregation system and a system that tracks the customers with all the prospects enlightened.

Integration of all Delivery Channels: The integration of the various banking channels including remote banking services, call centers, e-mail and web banking to provide a single view of the customer thereby improving customer service. The effort and focus of the banks to increasingly move towards this so as to cross sell the products and identify better avenues for profitability, is another CRM driver for the banks.

Introduction of Multi-Channel Management: With a focus on the improvement of the customer service and operational efficiency the banks have developed multiple channels for banking. The customers who access a Bank through different channels should be identified and served in the same way. Specifically within the banks, there is a large potential to standardize processes and information systems to reduce overheads and provide consistent service levels. This is again a driver for the implementation of the CRM systems in the banks.

Automated Business Processes: These processes aim at providing seamless information flow between Marketing, Sales & Service. Existing barriers between these and other "back office" departments often prevent dealing with customers' individual needs. These can be broken down using a combination of workflow solutions, application integration and data warehousing techniques. Again the real use of the data is possible through effective mining of the data and implementation of the CRM system.

External Factors

The following describes the external factors that tend to influence the banks and incline them more towards the implementation of

CRM. Again the stress is on the need-based segmentation and not on the true literary sense as such. These factors tend to incorporate the business environment related factors in which the retail banks are currently operating.

Reduced Competitive Barriers: Deregulation of the industry has removed many barriers to competition, opening the door to new market entrants offering insurance and investment services, as well as traditional bank products. Diminishing technical barriers also have allowed banks to expand their market reach beyond traditional boundaries of geography via Internet banking, call centers, and an emerging range of wireless services. The entry of the competitors thus makes it imperative for the banks to develop systems for the retention of the old customers in order to retain the market share. The threat is singularly more in the retail banking segment where the competitive activity is by far the maximum. Thus this need for the effective tracking of the customers drives the banks towards the implementation of the CRM systems.

Reduced Scope for Differentiation: The growing competition and technological advances have ensured the development of a broadened range of retail bank channels and product and services offerings. Some have been achieved through in-house development and others through acquisitions and strategic partnerships. Although this rapid growth in the numbers and types of banking products has meant greater choice for customers, the net effect has been the commoditization of banking products with little scope for differentiation. The in-house development although is in line with the strategic focus of the banks, but this inevitably increases the time to market for these products and increases their degree of being prone to be copied by the competitors. Moreover the banks that have grown their product range through acquisition are dependent on how quickly and successfully they manage the complex task of integrating the newly acquired products and associated technologies and processes into their own organization. As for growth by partnership, the compatibility of information and delivery systems and business cultures directly impacts a bank's ability to leverage the new offerings. This then directly influences the bank to actually develop systems of customer relationship management and drive value through better understanding of the customers.

Customer Demand: The Retail banking segment of the bank's customers tend to have high levels of expectation and, with a number of competitive offerings available, their tendency to switch in case of any dissatisfaction is very high. The retail banking products customers typically demand flexibility in pricing and fee structures, more choice via a wider product range, rapid response to requests as well as customized and personalized products and services. Also these customers generally demand virtually unlimited access to transaction and information services, anytime and anywhere, via their chosen delivery channels or devices. For the profitable servicing of these customers the bank needs to sell them multiple products to generate volumes, so as to ensure a particular level of profitability. This requires an effective tracking of the customers being provided by the CRM systems.

Relationship Banking: This is a direct exponent of the emerging competition and the banks' need to retain the existing customers and attract new ones. Thus the bank-customer relationships are also becoming more complex, exceeding the ability of individual bank staff to manage and interpret. Growing levels of information about new products and services and their customization to customer segments prevent effective handling of the customers requests by the single person working without the help of the tracking systems. Product or channel-centric strategies often create issues resulting in inconsistent treatment and conflicting offers and decisions, and prove ineffective as customer relationships grow in complexity, involving the increasing use of a variety of product types, services, and channels. But still the retail banking segments need to consider the full range of factors potentially impacting customer relationships so as to understand the value proposition represented by individual customers and make optimal decisions on how to realize that value. The implementation of the CRM systems allows a single person to actually handle such a complex customer interaction network and allows the fixing of the responsibility on the particular person. Thus it in turn also allows the better measurement of the employee productivity and also directly improves the same.

Increased Risks and their Intermediation: The new trends in the retail banking sector have given life to different types of risks that were probably non-existent earlier. These are typically characterized by the following:

As retail banks provide *greater access to information*, they expose bank systems to employees, customers, and consumers. Directly accessible accounts and other information increase the potential for unauthorized access. Banks must therefore be able to identify suspicious transactional patterns that represent possible security breaches or fraud attempts. *Narrowing margins and heightened competition* require understanding the full financial position of customers and prospects to accurately assess credit risk. Changes in positions and total exposure must be clearly defined to support decision-making and meaningful responses. *Operational risk expands as the increase in complexity* and in the required speed of transactions leave a smaller window for detection and remediation of errors, emphasizing the need for immediate accessibility of complete and up-to-date data about customers, products, and processes. *A competitive market increases the risk of customer attrition*, and banks must be able to identify signs (such as cancellation of all direct debit instructions) signaling that a customer may be leaving the bank so that appropriate action can be taken.

All these factors lead to the imperative implementation of the systems to track and monitor the customers to mitigate these risks and improve the functional operation of the bank. This again becomes a reason for the investment in the CRM system in the retail-banking environment.

Advances in Technology: The advances in technology are another new dimension that has been added to in the retail banking segment in India. The following discussion focuses on the actionable points where technology would actually aid to the implementation of the customer management systems in the retail-banking environment.

Affordable Data Storage for the Retention of more kinds of customer information, in greater detail, allowing development of richer customer profiles and more robust analytics have enhanced the scope for CRM applications. Increased communication speeds and capacities for quicker access to centralized customer information in an array of formats. Integration of systems and processes for automated workflow, permitting consistency between inconsistent front ends and legacy system aids the decision to develop a strong CRM application system. The emergence of Intranet and Internet technologies and standards for sharing and aggregating information and processes across traditional boundaries and for facilitating personalized customer contact and immediate responsiveness.

The combined effect of all these drivers is that retail banking segment is both enticed by promise and compelled by competitive threat not simply to adopt more customer-centric strategies, but to plan proactively and reach key implementation milestones on the evolutionary path to CRM. The growth in importance of CRM in retail banking is a result of several industry-specific trends and socio-economic factors-meaning that banks are being driven, or pushed, towards CRM as well.

Process of Implementation of CRM Solution in Retail Banking

So there is urgency in need and a set of valid reasons for adaptation of customer relationship management programs in retail banking sector in India. But implementation of a CRM module in Indian organization poses a big challenge because one has to reorient the whole business process, structure of the organization on which retail banking business has grown over a period of time in India. Following are the key issues that the bank needs to focus on to determine the implementation strategy.

Business Processes: Evaluation of the current business processes of the bank is essential. This is to determine the nature of products the bank wants to offer and the way it wants to develop its customer portfolio. The orientation and the description of the business processes is a key requirement for the customization of the CRM solution for the particular bank.

Information Processes: This involves the analysis of the existing information processes with which the bank is currently working. The integration of these in the CRM system and their suitable restructuring is essential for the implementation of CRM systems in the bank. The information flow needs to be channelised and arranged in such a manner that the new system further encourages it, rather than trying to ineffectively replace it.

Information System: Retail banks have their own legacy systems and information technology infrastructure built during the evolution of the bank and over the technology adoption horizon of the enterprise. The existing information infrastructure of the bank needs to be analyzed and the implementation of the CRM infrastructure accordingly customized. The focus again has to be reinforcement rather than replacement.

Internal Organizational Culture: This is often a neglected aspect in most of the organizations. People feel a better technology adaptation and enhanced Information technology capabilities will make a CRM initiative successful. This is a myth in CRM implementation. The banks' systems have to gel with the organizational change. The success of the CRM implementation lies in the homogenization of the same in the organization systems and responsiveness of the organization to it in order to develop the particular customer relationships that CRM promises.

The basic implementation of CRM takes place in four stages. These are the core stages and form a generic framework for implementation of Customer Relationship Management in retail banking. An implementer need to follow the basic four stage model while implementing a CRM program for retail banks.

Identification of Exactly Who are Banks' Customers: This is an important step for the implementation of the system. The bank needs to identify the customers on the basis of their products and the focus of the bank. It is essential for the bank as it needs to identify the segment of people it needs to target, for the maximization of the CRM system efficiency and results. Banks need to build a large repository of database about customers who buy different kind of products and services from the bank. They should collect data from all customer touch points to have a three sixty degree view of the customer's interaction with the bank.

Classification of Banks' Customers: The system needs to track the different set of customers with a different perspective and focus and attention also has to be customized. The definition of the nature of interactions that bank needs to maintain with a particular customer depending on the profitability and the size of the account have to be developed and accordingly the CRM database updated. Banks need to utilize the large repository of data collected in the previous stage, clean this data and then apply choice rules through data mining and clustering techniques to classify customers on various bases like profitability, product usage rate and cost to serve the customers. This will help the banks to develop different kind of strategies to target the segments and design effective campaigns for generating higher returns from existing customers.

Interaction with The Most Valued Customers: A CRM solution not only allows thus to define these customers it also helps in strategizing a particular type of strategy for them. Banks can segment the whole market and then looking at the product and service usage of the customers can develop different kind of marketing strategy and design campaigns to reach at customers. Campaign managers can develop off line campaigns like credit card companies do or on line campaigns through emails and we based initiatives. As we have already obtained a three sixty degree view of the customers, the implementer can find out which customer touch point will make the customer closer to the firm's offer.

Customization of Banks' Products, Services for Different Customer Segments: Selection of media mix and customer interaction points backed up by the customer's past usage data and intention forecasts, the product managers can design mass customized products for each of the target segments and launch the campaign. This will complete the CRM implementation process.

The bank needs to develop a feedback mechanism to track the consumer response to the CRM initiatives and launch of customized products. This mechanism will bring back a new set of customer data, which will help, in refining the strategy further to target the segments with profitable product propositions. There is a small precaution to the implementation. Before initiating and designing a CRM process, the retail bank must first develop a customer strategy. The strategy needs to address critical questions about the customer. For successful implementation of CRM, customer management processes need to be integrated into the bank. This means that the processes for identification, attraction, retention and development of customers must be customer focused than product focused. The value chain should start from the customer and then end with customer.

Normally the changes of this scale are difficult to implement and manage due to the cross departmental conflict. So the communication between departments is very important. It is obvious that the bank has to have a customer strategy when embarking on implementing CRM and to have a systems strategy in place as well. This needs to specify how any short term and pilot systems will be provided to support new processes or CRM initiatives and how these new systems will be integrated with the existing bank system in the long term.

Emerging technologies like web based system; Internet, e-commerce and smart cards can enable banks to adopt new customer relationship management capabilities. Therefore for banks it is now possible to offer and manage a number of different channels to the customer. In this situation it is essential that all channels can manage the information about a customer, have customer information available at the point of customer interaction to improve the customer relationship. This has moved business processes from one-way communications into an interactive dialogue with customers.

The systems which are used to support CRM should be piloted, developed in a step-by-step approach and should be justified on an ongoing basis. The success of any CRM initiative also depends on the organizational culture and employee -employer relationship because there is a direct link between the level of customer satisfaction and employee satisfaction prevalent in the banking environment.

Inferences from The Study of CRM Initiatives at two Indian Banks Viz.. HDFC Bank and Punjab National Bank

As a part of the research initiatives to study the CRM implementation in retail banking we have selected HDFC Bank and Punjab national Bank. While the former bank is a new generation private bank, the latter is a public sector bank. The former bank has developed both structure and systems from the beginning of the bank to be more customer focused and its technology platform and legacy systems are better equipped to capture customer data for building CRM programs and customer specific campaigns. The latter bank has to change its huge public sector mind set to be customer focused and develop systems with customer orientation and methods to draw customer interaction data.

Data Aggregation: The CRM process starts with data aggregation. Data drives all processes in all organizations. The foundation for CRM in retail banking is a single, global real-time information repository. The more data a bank has describing its customers, the more successful it can be in enhancing overall profitability. In retail banks, information about the customer comes from many different sources, systems, divisions, and delivery channels. The data is in many different forms and formats, so it must be cleansed and put into a repository in a format that makes it readily accessible to the people or systems that need it. Moreover, as the importance of the CRM system is realized, the integration into real-time interaction grows, meaning that the information must be available on-demand from a trusted, reliable source. Organizational data sources provide a complete picture of customer behavior, including transactions, balances, profitability, purchasing history, credit status, and demographic and psychographic data. The net result is a single, consolidated view of the customer and the customer's relationship to the company and the outside world.

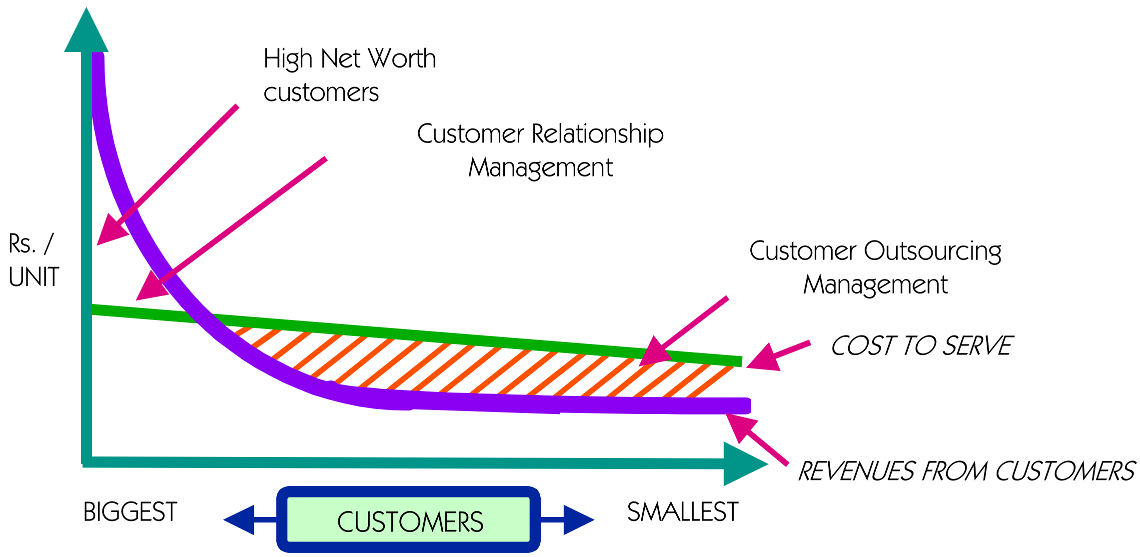
Extraction, Transformation, and Data Explore: The retail banking division conducts data cleansing and then uses them for extraction, transformation to business intelligence and exploration of meaning from the data. On a technical level, following steps are followed to create a repository of all of the bank's knowledge about customers and prospects:

- *Data extract.* Select and extract data from internal and external data sources.
- *Data merge.* Merge together customer data from disparate data sources (internal and external sources).
- *Data model.* Create a view of the data, its format, and organization.
- *Data cleansing.* Eliminate duplicates and orphans.
- *House holding.* Consolidate multiple customers and relationships into logical buying units.

Creation of a Data Warehouse: After extracting and transforming the data, a repository of data in the form of a data warehouse is built in both the banks. The repository can be used as an exploratory data warehouse, optimized for ad hoc processing, building data extracts on the fly and fully indexed for analytical, unpredictable processing, answering unanticipated queries, coping with ever-changing user and application requirements and constant construction and reconstruction (daily if necessary) to support new and updated data elements

Repository information is also used in customer segmentation, campaign management, and in activities such as personalization and defining rule-based triggers that enrich the value of information by making it actionable at the point of customer contact and thus help to maximize customer lifetime value

Calculate Customer Profitability: With a global real-time repository in place, a retail bank is in a position to engage in powerful analytic processing for sophisticated business analysis-analysis revolving around customer profitability, driving expanded customer relationships, and garnering increased share of the



customer's lifetime value. Both the banks know that some customers are more profitable than others, yet many go on treating all customers in the same way. In fact, both the banks have found that high-profit households may in actuality represent in excess of 100 percent of profits, because unprofitable households subtract so much. Through customer profitability analysis, banks have found that loyal customers are not necessarily profitable if they are also high users of the company's services.

Both the banks have understood the potential long-term value that present customers and potential customers can bring to a financial institution. Failure to take note of customer needs and failure to understand that all customers cannot be treated in the same way can only lead to costly investment mistakes. Both the banks have planned their sales and marketing efforts and service to customers based on profitability instead of revenue generation. The realization is that product profitability is less important than customer profitability because the entire customer-bank relationship determines profitability. Customer profitability analysis helps the banks to acquire new customers, cross sell variety of offerings, provide differentiated services to different set of customers and control the customer churn. Customer profitability analysis enables banks to identify unprofitable customers for migration to more profitable products and services that better match their needs. This also helps in deciding the pricing propositions for various new services to customers. Both the banks are following methods and selected matrices to calculate the life time value of customers through evaluation of current profitability, wallet share. Banks are following activity based costing to study the implications of resource deployment and cost allocations with revenue generated through various activity drivers.

They are using advanced predictive modeling systems to estimate the value of customer relationships over the life of the relationship. Predictive models are used to calculate future amounts (demand and sales) in order to support decisions regarding churn management, fraud prevention, marketing campaigns, or inventory planning. These models are engineered by software that sifts through large amounts of data stored in repositories, using a combination of statistical techniques to score and rank the dependent variable.

Conclusion

Customer Relationship Management has opened a new window to the world of customer intelligence. While in the past, business processes were decided by its proximity to the key resources and raw materials, today, business decisions and strategies are made looking at the proximity with customers. Customer responsiveness in the past has built only good will and better word of mouth communication, where as due to adoption of new technology and use of business intelligence, customer relationship management has been able to develop organizations, which are both customer centric and profit centric.

Applications of CRM programs in both the banks selected for our study have resulted in higher profits, better customer relationships, lesser customer defection and higher loyalty rate. The results of customer relationship management program is reflected in the over all profitability, growth rate and market capitalization of selected banks.

Key Words: Customer Realtionship Management, Technology Platform, Implementation, Retail Banking, Data Warehousing, Data Mining and Customer Profitability.

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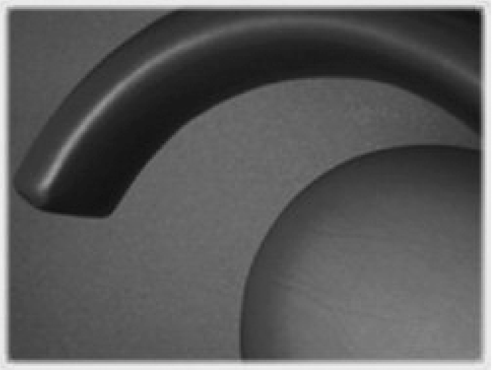
Ergonomics and Human Aspects of Ergonomics



N.Rajagopal and Nitha Jaya Prakash

Abstract

Ergonomics studies have been contributing immensely to make the work place safer, convenient and productive. Traditionally the focus of such studies was more on analyzing man-machine relationships. However, modern ergonomics studies have gone to the extent of the level of human aspects too. It tries to focus on the scientific analysis of human functions in the work place and establish the relationship between man and machine to help increase productivity. This article highlights the relevance of human characteristics of ergonomics in today's organization.

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Part I

Dimensions of Ergonomics

"Ergonomics is the term used to describe the study of the physical arrangement of the work space together with the tools used to perform a task." The word ergonomics was derived from two Greek words (Ergon and Nomos) which together meant the law of work.

Generally, ergonomics takes care of the following important aspects.

The simplest ergonomic model is a person interacting with the machine. The interaction is made by means of displays by which machine passes information to the users and controls by which the user phases information to the machine. Thus a complete information flow – loop exists, where all parts of the system must function properly and must not cause any delay in the flow of information of successful, safe efficient use is to be obtained. Areas of study covered under ergonomics are given in the following.

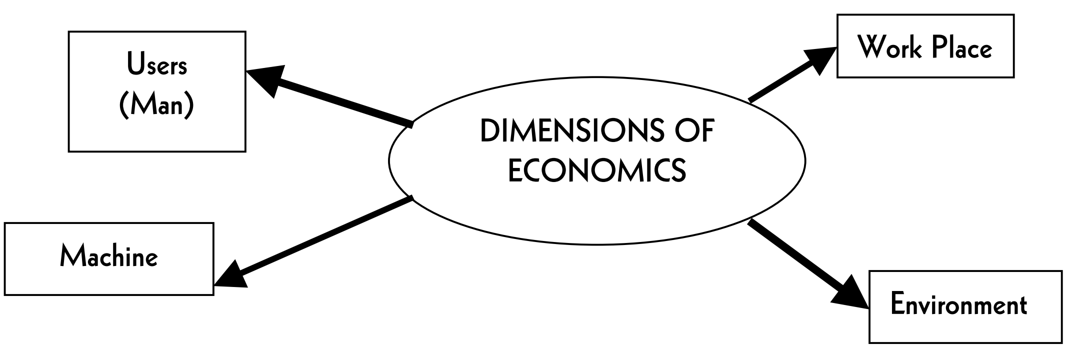
In short, the very important aspects of ergonomics can be figure out as:

In recent years an important area of study and application has been developed which is devoted to the problem of fit, and has the name, ergonomics or human factors. It is scientific, in that ergonomics measures human characteristics and establish the way that human body and human mind work. It is also technological, in that the results of scientific work in the human sciences are applied by ergonomists in the solution of practical problems in the design and manufacture of products and system.

Main Areas of Study

Areas of Study	Examples
Physical aspects of the user machine interface	Size, shape, texture, colour, method of operation of displays, controls in machines to be used anywhere .
Workplace design and work place lay out	Layout of factories, shop floor, offices, workplaces where detailed relationship between different equipments, work, user etc is established.
Job design, selection and training	Influence of shift work on performance, design of instructions, job aids, training schemes, learning curves, selection of personnel against criteria of aptitude and personality.
Physical environment	Effects of climate, noise, vibration, illumination, sound and chemical / biological contaminants on human performance and health.
Psychological environment	Organisational structure within a group and its influence on job satisfaction, productivity.

In short, the very important aspects of ergonomics can be figure out as:



Part II

Human Aspects of Ergonomics

The basic goal of ergonomic studies is to assess the degree of fit between various components of the system, and then design the systems, which can achieve fitting the user to the task. The task is described in physical terms (displays, controls, work places, environments) as well as psychological terms (satisfaction, responsibility, etc). Fundamental assumption is that performance will be better and more satisfying if this fit is good than if it is poor.

It is obvious that this study searches a fit between user and machine / facility in physical, physiological, and biological terms. So a good ergonomist must consider Human – characteristics to accomplish the successful application of ergonomics.

Indicators of poor fit between take and user

Level 1	a. Quality and quantity of output b. Quantity of output per unit time
Level 2	a. Absence time from the work b. Under use of machine / facility c. Accidents d. Criticism about environment / product

Human Characteristics of Ergonomics

1. Data about the physical characteristics – size, shape of body, strength from functional viewpoint, weight human body movements, etc.

2. Data about psychological characteristics – human sensory system and its capabilities.

3. Data about biological characteristics – the components of human body operation to assess fatigue and the effect of vibration, sound, etc.

Human Aspects of Ergonomics – Analysis Procedure

User

Consideration of sex; age; size; physique; intelligence; experience; training and motivation.

User Machine Interface

Influence on operator and decisions of displays - sensory input to operator.

Controls- motor output from operator Panel layouts-display-control compatibility. Based upon study of human information – decision-action – action patterns and of human equipment and task operational sequences.

User workspace interaction

Influence upon, behaviour and performance of physical aspects, chemical aspects, biological aspects, psychological aspects.

Physical aspects – light and colour, noise, heat, ventilation, gravity, movement, electro magnetic and nuclear radiation, etc.

Chemical aspects – gas or liquid, composition, pressure, smells.

Biological aspects – microbes, insects and animals.

Psychological aspects – work team, command structure, pay and welfare, shift conditions, discomfort and risk type of industry, social aspects.

It is important for an organization to consider the main areas of human aspects of ergonomics such as the job design, physical environment and the psychological environment.

Organisational Dimensions	Parameters
Job Design	contribution, comfortability, absenteeism, flexibility, reliability, usability and capacity.
Physical Environment	working area, feasibility, arrangement, availability of material, quality. A study is being conducted to analyze the effectiveness of these variables.
Psychology	attitude, discipline, assessment, stress and opinion.

Conclusion

In short, a basic ergonomic model in a man machine which is designed to perform a specific task. The effects of health and safety on productivity cannot be properly discussed without touching on the concept of ergonomics. This term covers a field which in recent years has expanded to an extraordinary degree and whose boundaries overlap with other disciplines concerned with the study of work and its consequences on human beings.

To enhance the functional effectiveness, it is important to maintain and improve its human welfare. The ergonomic measures may be understood that of going beyond the mere protection of the workers physical integrity and at ensuring their well-being through appropriate working conditions and the most suitable way of their physical characteristics and physiological and psychological capabilities. Thus ergonomics is human centered.

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Role of Organization Culture in Mergers and Acquisitions

Ajay Kumar Yadav and R.Kumar Bhaskar

Abstract

Mergers and acquisitions are increasingly used by firms to maintain and strengthen their competitive advantage in the global market place. This article is an attempt to understand the role of organizational culture in attaining the objectives of a merger by examining the relationships among changes in the various cultural dimensions of the combined organizations, employee's satisfaction with these changes and the post integration performance of the organization based on the typical success measures. The article emphasizes the critical role of cultural changes in merger or acquisition success by underscoring the fact that change variables are significantly correlated to the post integration organizational performance parameters.

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Modern organizations are facing increasingly complex, dynamic and unpredictable operating environments. Turbulent economic, social and political forces including significant shifts in the economy, globalization and increasing competition, rapid and broad diffusion of technology, free trade, deregulation, maturing products and stagnant industries are transforming the external environment of firms. These contextual influences present organizations with both critical challenges and new opportunities for growth and development. Mergers and acquisitions are two of the most important restructuring tools that organizations are using to adapt to the forces of economic change. They are characterized as 'indispensable strategic tools for expanding product portfolios, entering new markets, acquiring new technologies and building new generation organization with the power and resources to compete on a global basis.'

Mergers and acquisitions are usually well planned in terms of the financial and legal aspects. But still a high percentage (from 50 to 80 per cent based on the criteria and time frame used for measurement) of these transactions fail to meet expectations. The pressing nature of financial and legal affairs shifts the role of organizational culture in a marginal position, and most of the energy is invested in strategic and financial planning. Mergers and acquisitions are important to study from an organizational perspective as they have become instruments of major organizational change in the recent years and cultural clash between two merging companies has been one of the most common explanations for their low success rate (20-25 per cent). Mergers and acquisitions bring forth the problems of cultural integration of two entirely disparate organizations, each with its own unique history, systems, and structures. Cultural clash influences the effectiveness of the post-merger integration process and thus the financial performance and shareholder value of the acquiring company. The financial and legal aspects of mergers and acquisitions are always meticulously planned but the cultural aspects are treated as a secondary concern. Therefore studying the human and cultural aspects and the underlying dynamics in these organizational change processes can provide better understanding of their success and failure outcomes and given the growth in the numbers of mergers and acquisitions in the last decade, this issue has acquired an even greater managerial importance.

Conceptual Perspective

Culture: Kroeber and Kluckhohn gave a very comprehensive definition of culture: "Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements in a future action." For example, Hewlett-Packard is a company that has been conscious of its culture for long time **(The HP Way)** and has worked hard to maintain it over the years. Hewlett-Packard's corporate culture is based on 1) respect for others, 2) a sense of community and 3) plain hard work. HP's growth and success over the years can be attributed to its strong culture.

Cultural Dimensions: Because of their subjective and perceptual nature, there may be an infinite variety of cultural items. However, various researches and studies have identified following important dimensions of an organization's culture.

(1) Innovation and action orientation

(2) Risk-taking

(3) Lateral interdependence

(4) Autonomy and entrepreneurial spirit

(5) Performance orientation

(6) Strategic Focus

(7) Process Orientation

(8) Team orientation

(9) Customer Focus

(10) External Orientation

(11) Basis for commitment of organizational members

(12) Power Distance

(13) Cooperation and Competition

Contents of Organizational Culture

The contents of an organizational culture are primarily derived from two sources: the prior assumptions of the founders, leaders, and employees brought with them and their learning experiences within the firm. Since learning is ongoing all the time, culture is subject to development and change. But since values cannot be changed overnight, such changes would be "incremental and evolutionary rather than radical and revolutionary" (Schein, 1992).

Artefacts: These are the most visible and most superficial manifestations of an organization's culture and generally refer to the total physical and socially constructed environment of the organization. For e.g. Material objects (brochures, products, corporate logos, mission statements), physical layout (corporate architecture, office space, furnishings, dress codes, car parks), technology (computers, photocopiers, telephones), languages (jokes, anecdotes, stories, metaphors, jargons), behaviour patterns (rites, rituals, ceremonies, and celebrations).

Beliefs, values and attitudes: Values and beliefs are part of the cognitive substructure of an organizational culture. Values are intimately connected with moral and ethical codes and determine what people think ought to be done. Beliefs, on the other hand, concern what people think is and is not true. The beliefs that increasing expenditure on advertising will lead to increased sales is a widely held example. Attitudes connect beliefs and values with feelings. An attitude is a learned predisposition to respond in a consistently favourable or unfavourable manner to a particular thing or idea.

Basic assumptions: A basic assumption is a taken for granted solution to an identifiable problem. It refers to the implicit, deeply-rooted and shared assumptions, which guide people's perceptions, feelings and emotions about things. They are held unconsciously and are very difficult to surface and therefore not easily modifiable.

Merger: Merger can be defined as a transaction that combines two or more economic units to form a new company, which often has a new corporate identity. It is a statutory combination of two (or more) companies, either by the transfer of all assets to one surviving company or by joining together of the two firms into a single new enterprise. Therefore, mergers are - at least in principle co-operative agreements between equal partners.

Acquisition: Acquisition refers to the purchase of a company by another company. It may be defined as a structured transfer of one organization's assets and liabilities to another in an agreed upon and orderly manner. These assets may include a firm's physical plant, materials, markets, technologies, and employees. The formal distribution of power is clearer in case of acquisitions than in mergers. In acquisition, one entity absorbs another entity, while in merger, two or more entities combine to form a new entity.

Acculturation: According to Nahavandi and Malekzadeh "Acculturation is the process by which two or more cultures come in contact and resolve the conflict that arises as a result of this contact."

Synergy: Synergy is a concept from systems theory, which in the context of mergers and acquisitions, assumes that the collective advantages to be gained by joining forces is greater than the separate existence of two organizations. Whenever two separate organizations merge, they want synergy. Each side hopes to benefit from the merger and, initially, willingly ascribes benefit to the other. Successfully managing the creation of organizational synergy through a merger gets additionally complicated because each partner and its subunits may be at different stages of organizational maturity. Each organization will be predisposed to certain methods, standards, and procedures and by neglecting the difference in organizational cultures; the realization of potential synergy becomes immensely difficult.

Earlier Studies

In previous researches about mergers and acquisitions, most studies have focused on a part of the whole process, such as objectives of mergers or acquisitions, post-integration performance, sources of shareholder wealth in corporate mergers and acquisitions, influences on post-acquisition intégration etc. Although there exists a growing literature on M&As, it does not form a coherent whole. Instead, it is characterized by different researchers studying these phenomena from different perspectives. However two distinct approaches to M&A can be identified in the literature. The first approach is called the Traditional approach and explains M&A only as a matter of finance and strategy. While the second approach, the Organisational approach, is more focused on the cultural aspects of the M&A phenomenon.

The Traditional Approach to M&A

Financial performance has been the traditional measure of success for organizations and thus it has also been a prime measure of success in M&As. In the 80s, economists, strategists and financial advisers were the ones who implemented M&As. Thus M&As were based on financial or value-maximizing motives, while the main objective was to increase shareholders' wealth and financial synergy through economies of scale, transfer of knowledge and increased control. At that time, M&As were considered to fail because of rational economic reasons, e.g. economies of scale were not achieved, the strategic fit was poor or unexpected changes in the market conditions. But lately, organizations have learnt that making a successful M&A is more than just "getting the sums right."

The Organizational Approach to M&As

The organizational approach is focused on organizational fit that is related to the degree to which partnering organizations are compatible, in terms of their cultures, administrative systems and procedures, managerial style, decision-making approach, and communication patterns. With this approach, researchers, such as Cartwright S. and Cooper C. have analysed whether M&As result in more or less resistance in the organizations involved. These studies have considered issues like anxiety, change resistance, loss of motivation, loss of productivity, absenteeism, and personnel turnover resulting from M&A. In this approach researchers work with the hypothesis that cultural fit between the acquiring and the acquired organizations is directly correlated to the success of the acquisition.

There is a converging opinion in the available literature that visionary leadership & effective communication are of fundamental importance in managing the intense change caused by the merger or acquisition. Thus all the people affected by these changes should be provided clear and concise information about the purpose of the integration clear delineation of lines of authority and elaboration of any leadership changes precipitated by the merger or acquisition should be communicated to employees as soon as possible. Such information can be used to influence more favourable attitudes towards the event (MacDonald, 1995). A realistic merger preview should specifically address performance expectations and ground rules. (Marks and Mirvis, 1992). The researchers have found that a realistic merger preview stabilizes the situation and reduce some of the detrimental consequences of mergers and acquisitions.

Objectives of the Study

This study primarily attempts to understand the meaning, scope and significance of organization culture in mergers and acquisitions in the Indian context. The specific objectives of the study were:

- To study the significance and influence of organizational culture in mergers and acquisitions in Indian context.
- To study the relationship between various cultural factors, the post integration performance of the organization and employee satisfaction in mergers and acquisitions.
- This study is descriptive and diagnostic in nature dealing with various cultural aspects of mergers and acquisitions. It takes into consideration the various human and cultural factors such as the information shared during the merger process, the change in management style, the change in work environment and appraisal system, new values adopted, employee motivation etc. that influence the merger or acquisition integration process and substantiates their significance in the post integration performance of the organization. This study is based on a survey conducted in various companies that were merged or acquired in India during the period from 1998 to 2003.

Sampling Procedure And The Sample

The units of study belong to various industries ranging from Information Technology to Pharmaceutical Industries but predominantly the sample consists of respondents from Banking & Finance and IT industry. The primary data for the study was collected by means of questionnaires floated among the employees of the selected organizations where either a merger or an acquisition had taken place. For the purpose of canvassing the questionnaire respondents have been selected by means of random, convenience sampling method. The selected organizations were spread all over India including the cities of New Delhi, Mumbai, Hyderabad, Chennai and Bangalore. The sample consists of senior, middle, junior and line managers of 12 companies from the different industries under study. A total of 120 filled-in questionnaires were obtained from these companies.

Sources of Data: The data required for this study were collected both from primary as well as secondary sources.

Primary Data: This mainly comprises the information obtained from the structured undisguised questionnaires that were canvassed at the selected organizations all over India. The respondents were the employees in various managerial cadres in these organizations. The questionnaire was pilot-tested before it was administered to the sample of respondents and suitable alterations were made based on the feedback received.

Secondary data: Besides the survey, required information on the topic has been obtained from books, journals, magazines, and websites.

Profile of the Respondents

Analysis shows that the sample predominantly consists of the male population (88 per cent) in the middle and junior management cadre (66 per cent) with an experience of up to five years (68 per cent). This experience doesn't represent the overall job experience of a respondent but the years spent with the company before the merger/acquisition took place. The analysis doesn't use any other demographic variable for the classification of respondents as they have little importance in this study.

Application of Systems Engineering Methodology

The Systems Engineering approach to problem solving emphasizes interactions and interrelations among the diverse parts of the problem. It is used to approach large and complex societal problems in a unified fashion (Warfield, 1977). So, for a better understanding of the cultural and other people problems during the integration process in a merger/acquisition, this particular methodology is used. The first step of this methodology is problem definition, which involves identification of the various elements viz. stakeholders, needs, constraints and alterable (Table 1).

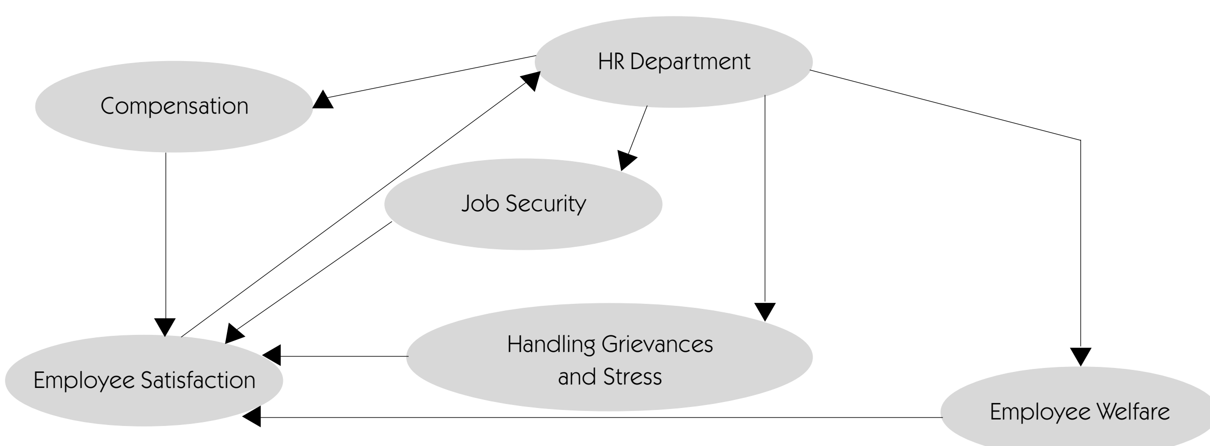
- **Stakeholders** are those who demand and influence the system's performance
- **Needs** are those wants, which are expected to be fulfilled by the stake holders

- **Constraints** are the elements in a system which constrain the fulfillment of the needs
- **Alterables** are those elements present in the system, which are amenable for manipulation for the purpose of system's improved performance.

Once these systems engineering elements are classified, a system interaction matrix is evolved which shows how these elements influence each other. This matrix is then used to develop the cybernetic diagram (Figure 1) The next step involves deriving the objectives. Objectives essentially define how alterable can be managed to overcome constraints for fulfillment of needs of stakeholders. (Table 1) Once these objectives are identified, a system subordination matrix is evolved which gives which objectives are subordinate to which other objectives. This is followed by the identification of the base objectives that finally lead to the apex objectives. Based on this, the objectives are further reorganized to develop the value system design (Figure 2).

Cybernetic Diagram Explanation

The analysis of the cybernetic diagram (Figure 1) brings forth major interrelation-ships one of which is explained here - 'If the HR department handles grievances and stress experienced by employees during mergers and acquisitions, ensures adequate and fair compensation, provides job security and takes care of the welfare of the employees (both retrenched and retained) then all these lead to employee satisfaction which helps the HR department to manage the human capital of the organization efficiently and achieve the expected productivity levels and human synergy.'



Value System Design Explanation

The numbers in the Value System Diagram (figure 2) indicate the respective number of objectives (Table 2). From the value system design it can be inferred that the base objective is to combine resources (operational, intellectual etc.) of the two organizations by retaining the key people and manage the change process smoothly (objective 7 and 10) which together ensures employee satisfaction (objective 9). Once employees are satisfied, they develop a positive attitude towards change, which helps achieve objective 8 i.e. creating an adaptive culture in the combined organization. This in turn enhances managerial efficiency of the organization (objective 3) and leads to the realization of the expected synergy. Once the synergy objective is achieved, objective 6, 4 and 1 naturally follow it. Finally, these three objectives together, lead to the apex objective of achieving a sustainable competitive advantage and market leadership.

Limitations of the Study

The findings of the work by means of a study of a few selected organizations and also a limited sample may not be truly representative of the universe in a strict sense. The quality of the data also, could be constrained due to response bias, survivorship bias (only those who remained with the organization after the merger or acquisition responded to the questionnaire) and a possible gap between the investigator's observation and the respondent's perception of organizational culture and success parameters. The responses were based on the respondent's memory. Thus in cases where merger/acquisition took place more than three years ago, some inaccuracy might have been induced in responses. However, the study provides useful insights into the various facets of cultural problems during mergers and acquisitions. The study also provides a platform for investigating the results obtained, with a larger representative sample. These results can be used as a starting point for a more comprehensive and in-depth study.

Table 1 : List of Objectives of Cultural Integration during Mergers/Acquisitions for Value System Diagram

Sl. No.	Objectives
1.	To achieve greater growth rate in expensively in less time.
2.	To achieve synergy (operational, strategic, human)
3.	To achieve managerial efficiency
4.	To capture greater market share and achieve market dominance
5.	To gain sustainable competitve advantage & market leadership
6.	To strengthen the core competence
7.	To acquire intellectual capital & technical know how
8.	To develop a new adaptive culture for the organization as a whole
9.	To achieve employee satisfaction
10.	To manage change process smoothly

Findings of the Study

The Attributes of New Culture

Many empirical studies have proved that cultural incompatibility is one of the biggest causes of lack of expected performance, departure of key executives, and conflicts in the consolidation of business. Culture plays an important role in shaping the commitment, expectations and resistance of the employees and determining the ways employees react to the new structure. Conflicts may arise if the business philosophies, management styles, values, and missions of the two companies are significantly different. But, if the new culture offers more freedom, opportunities and transparency in conducting day-to-day business, it considerably reduces employee resistance. So respondents were asked about the most liked features of the new or changed culture. The responses obtained, give a clear picture of the various aspects of culture expected by the employees after a merger or an acquisition.

- Corporate values (e.g. Honesty, Team spirit, Openness, Humility etc.) (39 per cent)
- Transparency & fairness in administration and policies (35 per cent)
- Trust between employees and management (26 per cent)
- Opportunities for personal and professional growth (24 per cent)
- Quick decision-making and more freedom (19 per cent)

Table 2 Classification of Cultural and Human Aspects of Mergers / Acquisitions

STAKEHOLDERS		NEEDS	
S1	Employees	N1	Effective Decision Making
S2	Managers	N2	Satisfaction
S3	Management	N3	Fair Compensation
S4	Clients/Customers	N4	Employee Welfare
S5	Society/Community	N5	Job Security
S6	Shareholders	N6	Participation & Involvement
S7	Government	N7	Feedback
S8	Employees' Family	N8	Quality Products
S9	Financial Institutions	N9	Compliance of Law
S10	HR Department	N10	Social Responsibility
S11	Promoters/Owners	N11	Counselling, Training and Reskilling
		N12	Return on Investment
		N13	Culture Change
		N14	Handling Grievances & Stress
		N15	Career Prospects
		N16	Effective Communication
		N17	Synergy
CONSTRAINTS		**ALTERABLES**	
C1	Limited Resources	A1	Organizational Structure
C2	Lack of Training	A2	Systems & Procedures
C3	Recruitment	A3	HR Policies
C4	Policies & Procedures	A4	Organization Culture
C5	Lack of Experience	A5	Communication Strategy
C6	Power Struggle	A6	Reward Systems
C7	Attitude of Management & Leaders	A7	Counselling & Training Programmes
C8	Lack of Trust	A8	Recruitment Methods
C9	Organization Culture	A9	Feedback System
C10	Government Policies	A10	Due Diligence
		A11	Integration Strategy

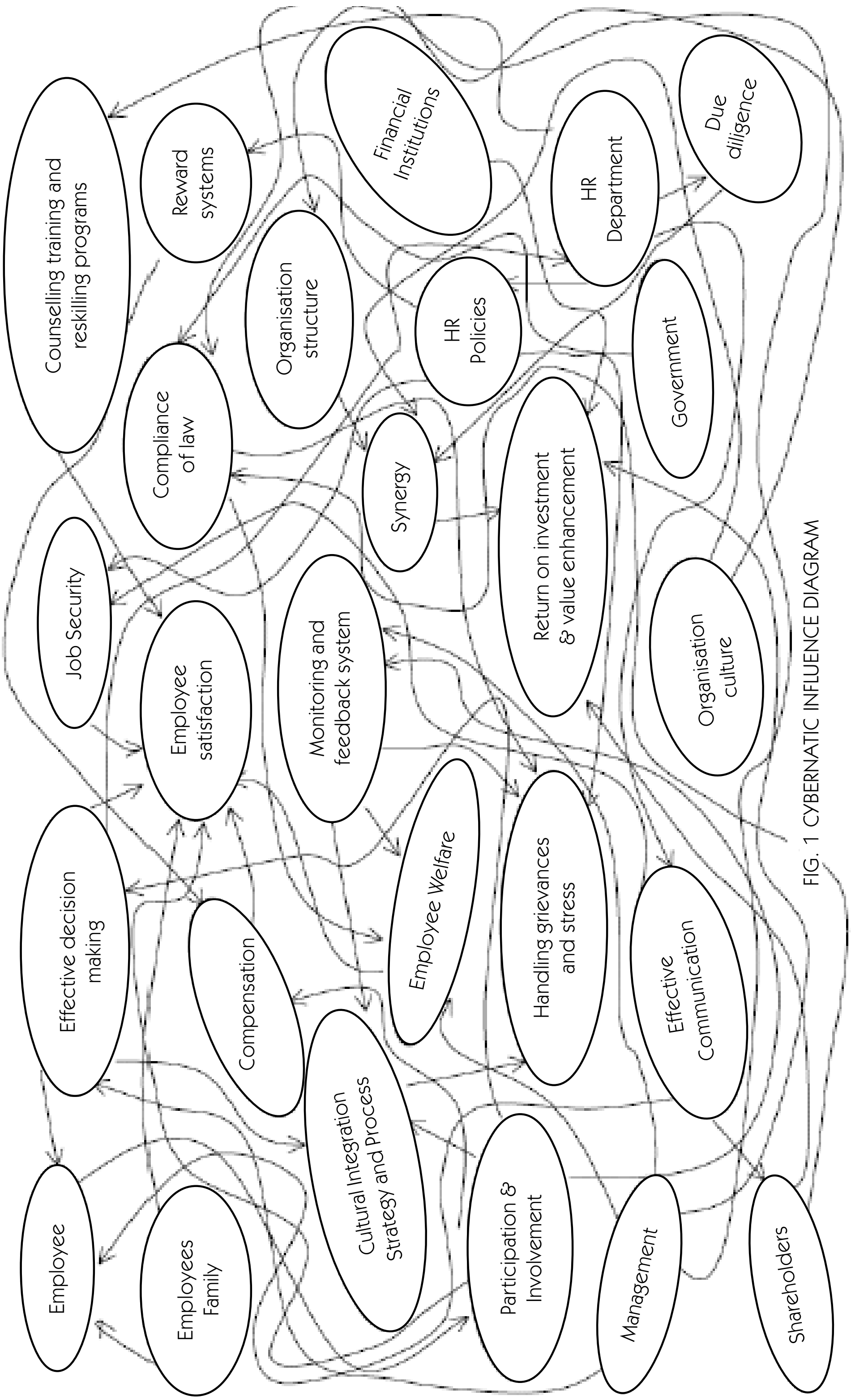
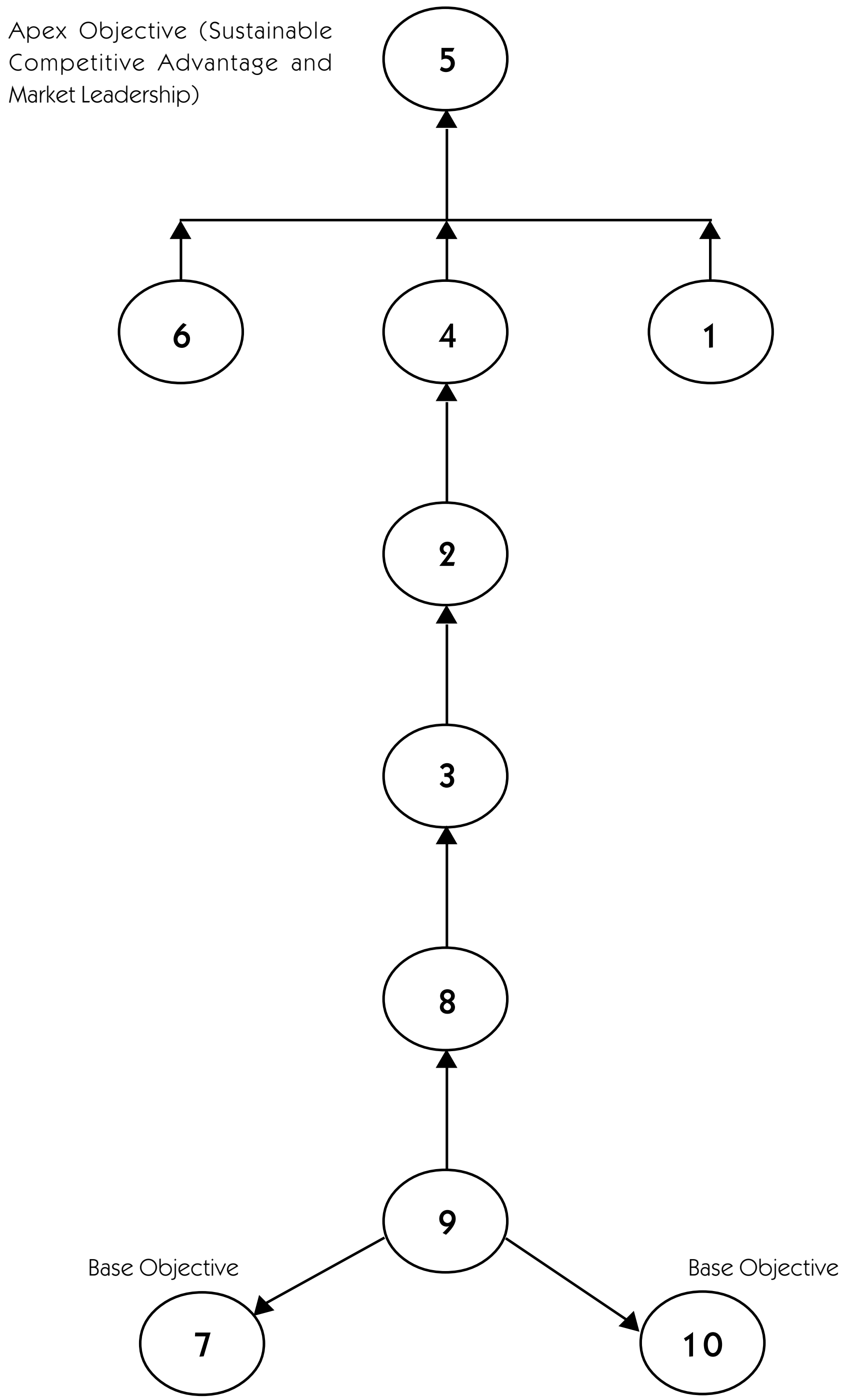


FIG. 1 CYBERNATIC INFLUENCE DIAGRAM

Figure 2 Value System Design for Cultural Integration in Mergers / Acquisition



Challenges Faced by Individuals

Mergers and acquisitions are events that produce significant stress in an individual's life because of uncertainty, insecurity and fears concerning job loss, compensation change and change in power & status and they lack control over these events. Individuals also find it difficult to adapt to the new situation when the cultural, administrative and other procedures and processes are different in the two organizations. These factors affect their ability and willingness to cope up with the change, negatively, which in turn increases their resistance to any proposed change in the status quo. Thus assessing the potential problems and challenges, addressing employee's concerns about them and training them for the new work environment is absolutely critical. So to take an inventory of these problems employees were asked about the challenges faced by them on the personal front. The responses provide insights into this aspect of the transition phase.

- New corporate culture and values (e.g. from loyalty to company to loyalty to customer, working in teams instead of individually etc.) (35%)
- Working with new boss and/or colleagues (22%)
- Working with new technology and processes (17.5%)
- The change process itself (13%)

The Most Critical Mistake in Merger/Acquisition

Despite the popularity of mergers and acquisitions as strategic instruments for rapid growth and expansion, the majority of them fail to achieve the expected results. Based on experience and research, various reasons are sited for these failures by different authors in the literature on mergers and acquisitions in organizational context. But ultimately all the differing views converge at a single point that there are cultural problems behind these failures and the soft issues are as important as the hard numbers. When respondents were asked about the most critical mistake often committed by the merging/acquiring organizations, a variety of answers were obtained but in the background of all of them were the cultural aspects of the change process. An overwhelming percentage of the respondents expressed their discomfort with the imposition of the dominant culture upon them. Also, integrating at a slow pace elongates the transition phase and people remain occupied and distracted with unproductive discussions about the consequences of change for their own job and future.

- Imposing the dominant culture on partner organization with a win-lose attitude 44%
- Not assessing the cultural gap & integration requirements during the due diligence phase (41%)
- Lack of honest, consistent and real time information during the whole merger or acquisition process (37%)
- Integrating the cultural, operational and other administrative aspects slowly (27%)

Importance of Macro Factors in Merger/Acquisition

On the basis of reviewed literature five macro variables were identified and respondents were asked to rank them in order of their significance in the success of a merger or acquisition. The responses were then classified across different management levels and the different ranks given to each macro variable. The Weighted Mean Value Analysis revealed that cultural fit between the two merging entities is second to strategic fit between them, in order of importance for determining the success of a merger/acquisition and the difference in the WMV values for the two factors was significant. This is contrary to the popular opinion found in literature that cultural aspects of organizations are as important as the strategic and financial aspects of a merger/acquisition deal.

- An overwhelming 96 per cent of the senior managers, 84 per cent of the middle managers and 78 per cent of the junior managers while only 21 per cent of the line managers (supervisors, foremen etc.) gave either rank ONE or rank TWO to strategic fit. This may be because of the reason that line managers have a better understanding of the operational issues rather then strategic ones and they lack in knowledge of the big picture. Thus the importance of strategic issues decline as we go down the organization hierarchy.

- A significant 53 per cent of the line managers ranked technological fit as most important and 40 per cent of them ranked cultural fit as most important. The probable reason might be that the senior management is the setter of the culture in an organization but it's the line managers who deal with the cultural and technological practices in their day-to-day work. Thus culture and technology are more important to the line managers as any change in them can have serious implications for them.

- Cultural fit was given rank ONE or rank TWO by 65 per cent of the senior managers, 80 per cent of the middle managers and 78 per cent of the junior managers. The reason might be that the senior management accepts the language of hard numbers more comfortably and the benefits of culture are difficult to quantify. So culture is on lesser priority for them compared to the strategic and financial issues.

- There is a common belief about integration after the merger or acquisition that the larger the organizations, the more difficult it is to integrate them and thus size of the firm influences the success of integration effort substantially. But the analysis disclosed that 87 per cent of the senior managers, 87 per cent of the middle managers, 77 per cent of the junior managers and 59 per cent of the line managers ranked size of the firm as either FOUR or FIVE in order of importance. Thus it is the least important factor in determining the success of a merger.

Means of Communication Used During Merger Process

Insufficient information causes ambiguity and leads to differing interpretations of events by individuals in the organization, which is detrimental to the process of merger or acquisition. On the other hand clear, consistent,updated and continuous communication enhances commitment of employees during the integration. Repeating the message through multiple channels helps in making employees less resistant to change and managing the change process smoothly. Also, the channel and source of the message is as important as its content. As there is no one "right" way to implement communication and formal communication can't answer all the questions of stressed employees, the key is to address specific information needs of each constituency through customized communication. Research shows that experienced organizations always target their messages to the needs of specific audiences. They focus on creating informal opportunities for the management and employees of the merging firms to interact besides using formal tools like Web sites and special newsletters. When the respondents were asked about the means of communication through which they received information, the answers showed that there was no single predominant channel used by organizations to disseminate information among the employees. Instead they used a combination of means to communicate.

- Senior managers received most of the information from their immediate superior and team meetings (executive teams for implementing the merger/acquisition process)
- For middle managers the most prolific sources were team meetings (with senior managers and peers), inter departmental meetings and informal discussions.
- Company intranet, all employee meetings and personal talks with immediate seniors were the sources of information for junior managers.
- Line managers' delineated employee newspaper and informal discussions (with peers) as the major source of information for them in a merger or acquisition situation though other sources like company newsletter and intranet were also used. This indicates that there was no personal touch in the communication and only the formal channels were used.

Personal Situation

Mergers and acquisitions bring a great amount of change with them and sometimes employees find it increasingly difficult to cope up with the intensity and speed of these changes. On personal front, they have to unlearn the old ways of doing things and embrace a whole new range of behaviours and practices. Thus when respondents were asked whether they faced any challenges as an individual during the merger or acquisition process, an overwhelming 83.7 per cent of them replied in the affirmative, though the percentage differed substantially among merger and acquisition respondents.

- In case of mergers, managers at all the levels of management faced challenges and there was no great difference across the management layers in terms of challenges experienced.
- But in case of acquisitions, the difference in personal situation was considerably different. The analysis showed that situation was more difficult and challenging for senior (93 per cent) and line (92 per cent) managers compared

to the middle (83 per cent) and junior (78 per cent) level managers. This might be because the issues of change in power, status and compensation & benefits are more important to the senior managers and any negative change in these can reduce their commitment and support for the change.

Correlation Analysis

Correlation analysis was performed on the collected primary data to examine the strength of relationship between various variables involved in a merger/acquisition. Manufacturing and service sector firms were analysed separately and the following results were obtained.

Correlations Between Various Aspects of Culture

(a) The change in the level of hierarchy and bureaucracy was significantly negatively correlated (correlation coefficient- 0.366 and -0.385 at five per cent significance level) with the change in entrepreneurial spirit in the service sector firms which means that whenever hierarchy (or in other words management layers) and bureaucracy increased, the entrepreneurial spirit was decreased as decision making was formalized and done on approval basis. But the surprising finding is that for manufacturing firms change in hierarchy and bureaucracy was not significantly correlated with entrepreneurial spirit. The reason is that cost of encouraging entrepreneurial spirit in manufacturing organizations would be much higher as compared to the service sector organizations.

(b) In service sector firms, the empowering leadership style was significantly positively correlated with entrepreneurial spirit (0.552, 1 per cent level of significance), receptivity to innovative ideas (0.496, 1 per cent level of significance), creativity (0.319, five per cent level of significance) and trust (.305, five per cent level of significance) between management and the employees. All these relations are consistent with each other as management gives more freedom to implement new ideas to lower managers when the trust level between them is high which in turn increases the entrepreneurial spirit throughout the organization. However, in manufacturing firms not only the above-mentioned relationship held good but the empowering leadership also showed a negative correlation with hierarchical level (-0.618, 1 per cent level of significance), which indicates that it is difficult to empower people when there are too many layers of management in the organization.

(c) In service sector firms, a higher customer orientation leads to a higher quality orientation (0.295, five per cent level of significance) while in manufacturing sector the relationship between quality orientation and customer orientation of employees was not significant enough. The probable explanation is that in manufacturing sector the employees don't come in direct contact with the customer and thus they may be aware of customer needs but may not put extra effort to provide better quality. But in service sector employees directly deal with customers and therefore higher customer orientation naturally results in higher quality orientation.

Correlations among Merger Process Variables and Various Success Parameters

For service sector organizations, there was a significant positive relationship between information provided in communication effort and the satisfaction level of employees which in turn was positively related to the success parameters like growth rate, the stated goal, innovative capability, productivity and efficiency (0.349 and above, five per cent significance level) which is in consonance with the literature. Providing specific information based on the need of each group involved in merger or acquisition can enhance employee satisfaction and acceptance of the change itself. This diminishes resistance and disruptive unproductive behaviour of employees and allows them to focus on their work. The human synergy thus achieved is reflected in the improved productivity and efficiency. The same analysis for manufacturing sector firms revealed a significantly positive correlation between the information provided about the proposed changes (in organizational structure, administrative procedures, appraisal system etc.) and the satisfaction level (0.685, 1 per cent significance level) of the employees but this satisfaction was not appropriately reflected in the success parameters like efficiency, productivity, growth rate etc because satisfaction level showed a positive relationship with productivity efficiency, innovative capability and stated goal only in the third year which means that the benefits of successful communication and satisfied employees are not realized immediately as was the case with the service sector organizations.

Correlations among Communication Variables and Employees Experience with Change Process

(a) In service sector firms, regular interaction between the employees of both organizations after the deal is closed, was positively correlated with their working experience with new colleagues (0.313, 5 per cent significance level) which means that early interactions do improve the understanding and acceptance of each other in the beginning stage of integration process.

(b) For service sector firms, the communication variables (Information provided about the potential changes in own organization and information about the policies, procedures, structure, mission, values etc.) demonstrated a strong positive relationship (0.454 and above, one per cent significance level) with experience of employees with the new appraisal system and the values, beliefs and norms. This signals that when people have prior knowledge of what is coming their way, it reduces their anxiety and uncertainty and develops an affirmative inclination towards it. Experience of employees with the above-mentioned changes was also strongly correlated with their satisfaction level, i.e., a positive experience with new boss, colleagues and the work environment increases their satisfaction with the change.

Correlations among The Change in Cultural Elements, Communication Variables and Success Measures

The analysis for service sector firms showed sharing information with employees in general and about the expected changes in the structure, policies and their jobs was considerably positively correlated with the level of trust between layers of hierarchy in the organization (0.405, one per cent significance level) which means that adequate, credible and timely information provided to employees establishes trust and faith in them towards management. The same was true for manufacturing firms with the difference that the relationships were stronger here (0.576, five per cent level of significance). Level of trust showed a notable relation with some of the success parameters like growth, efficiency and stated goal, though the relationship was not consistent through all the three years. In case of manufacturing firms, interaction between employees in the early stages inspired trust among them which in turn was significantly positively related with success parameters (0.585 and above, five per cent significance level) like growth and new products developed.

Correlations between Changes in Entrepreneurial Spirit and Success Measures

For service sector firms, the correlation coefficients depicted a consistent, significant and positive relationship between change in entrepreneurial spirit and success measures (0.332 and above, five per cent significance level) such as expansion of operations, entry in new markets, growth rate achieved and market share captured while in manufacturing firms the relationship was not significant enough to be considered.

Conclusion

It is a well-researched fact that 50 to 80 per cent of mergers and acquisitions don't meet the expectations set in the beginning of the process by the stakeholders and participants in these transactions. This high failure rate destroys shareholder value and produces many other negative economic consequences including job losses and decreased productivity. The rational economic, strategic and financial reasons were found insufficient to explain the reason of failed deals. Thus in the recent years, culture of the two combining organizations has been recognized as the most critical factor in determining the success or failure of a merger as the merger of two culturally different organizations often results in a decrease in employee morale, anger, anxiety, communication problems and a feeling of uncertainty about the future which in turn adversely affects the realization of potential synergy. For this reason organizational change perspective offers a more viable framework for understanding the unique and complex dynamics of mergers and acquisitions than do rational economic models. Mergers and acquisitions represent important changes in both organizational and employee life, with resultant significant negative impacts on organizational and individual performance if the cultural issues are not well managed. Yet management and top executives chose to ignore the cultural aspect of mergers and acquisitions, as they are hard to quantify. Therefore this study underscores the relative importance of cultural issues associated with mergers and acquisitions with the help of primary data gathered by means of a structured questionnaire. The analysis performed on the collected data revealed the significance of relationship between various elements of organizational culture, satisfaction of employees with the change process and the measures of success. The interpretation of all the significantly strong correlation coefficients disclosed that changes in work environment, organization structure, policies, management style etc. are closely linked with the post merger performance of organizations. This whole work proves that whatever the literature on cultural aspects of mergers and acquisitions suggests in general is more or less valid in the Indian context also.

Suggestions

Organizational culture represents people's collective attempts to bring order and predictability to daily organizational life. Culture gives people a sense of belonging, a sense of direction and a sense of meaningful contribution in pursuit of a cause. Therefore cultural differences that may cause conflicts and destroy synergies should be proactively identified in the due diligence phase itself. This requires an active involvement of HR function throughout the process (specially in due diligence phase).

- Defining a new culture for the combined organization requires a visionary and committed leadership. The leader can inspire vision of a new future and can buy employee's support and commitment for the change. Thus the role of a leader becomes critical in the first few months after the deal is closed and the leader should directly communicate to the employees to explain the rationale of the merger or acquisition to gain their loyalty.

- Communication throughout the merger process plays a vital role in keeping people focused. The amount of information, the content, the timing, the communicator and the channel used, are all critically important aspects of the communication process. A meticulous planning and effective execution of these aspects can make communication a strategic tool to achieve the objectives of the merger or acquisition. The goal of communications should be not only to inform, but also to engage employees as participants in the change process for which the message and the information should be customised to the specific needs of the particular group.

- Face-to-face communication with seniors carries more credibility than any formal channel (e-mail, voicemail, newsletters etc.) of communication because two-way communication always enhances comprehension. Table gives empirical evidence that face to face communication channels like all employee meetings, departmental meetings, team meetings and informal personal discussion with the immediate seniors are more frequently used means to communicate information. Thus all avenues should be used: written, one-on-one meetings, and small and large group meetings as they give all the affected people a chance to discuss, ask questions, and arrive at a personal level of understanding.

- The speed of integration is extremely important because uncertainty and ambiguity for longer periods destabilizes the normal organizational life. It puts greater stress on employees and distracts them from the actual work. Thus, the earlier the chaos and confusion is sorted out, the better it is for the organization's economic health.

- Generally both combining organizations have some unique cultural elements and straightaway imposing one organization's culture on the other can create enormous amount of resistance and can destroy the value of the deal. Therefore a more practical approach is to decide the degree of integration needed, based on the existing cultural gap between the organizations and the strategic objectives of the deal. In most of the cases, integrating best of both the organizations into a common corporate culture that both sides can identify with, gives a better chance of achieving the objectives.

Customer Relationship Management: A Boon for Insurance Business

Shaikh Ahmed Hussain and N.V.Sri Ranga Prasad

Abstract

Customer Relationship Management is one of the important aspects in today's business. In current business scenario the focus is laid on customer and firms are striving to delight the customer. And customer relationship management programs are adopted by various firms in fulfilling the task of attracting and retaining the customers. Insurance business being in the service sector needs to perform the task of attracting and retaining the customers more effectively. To facilitate this function, CRM philosophy helps the companies to achieve the desired objective. The present article discusses CRM philosophy in general and in particular for Insurance sector and presents a framework of CRM for Insurance business.

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The present business situation is characterized by customer-oriented market, immense competition, rapid strides in technology development and liberalization, privatization and globalization. In these circumstances, the survival and growth of a business firm essentially depends on a marketing strategy, which results in broadening the customer bases as much as possible by not only creating new customers but also importantly retaining existing customers.

In the existing scenario, more concentrated efforts have to be made by the firms in maintaining long lasting relationship with customers. Customers have to be controlled in switching their loyalty to other firms. The long-lasting relationship can be built only when the firm has adequate knowledge of the customer needs at various points of time and strives to fulfill not only the present needs but also helps the customers in identifying future needs and offers a solution. Maintaining long-lasting relationship with customers requires that there should be a regular customer interaction, which can be done in the following ways:

- Maintenance of customer database
- Application of state of the art technology for disseminating information to the customer
- Providing service at customer's doorstep
- Collecting feedback from them to assess the present gaps in customer wants and their satisfaction as well as to get an indication of their future needs
- To formulate a suitable strategy to fill up the gap and to take care of customer future needs

The collective name for all such services (activities) provided to the customer is termed as "*Customer Relationship Management.*"

In the marketing literature the terms CRM & Relationship marketing are used interchangeably. Some of these terms offer a narrow functional marketing perspective while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation. A narrow perspective of CRM is database marketing, emphasizing the promotional aspects of marketing linked to database efforts. Another viewpoint is to consider CRM only as customer retention in which a variety of after marketing tactics are used for customer bonding or staying in touch after the sale is made. A more popular approach with recent application of IT is to focus on individual or one-to-one relationship with customers that integrate database knowledge with a long-term customer retention and growth strategy.

Attracting new customers should be viewed only as an intermediate step in the marketing process. Developing closer relationship with existing customers and turning them into loyal ones are equally important aspects of marketing. Thus relationship marketing may be said as "attracting, maintaining, and in multi-service organizations - enhancing customer relationships." (Berry). The core theme of all CRM and relationship marketing perspectives is its focus on cooperative and collaborative relationship between the firm and its customers, and /or other marketing actors. The firms need to be selective in creating its programs and marketing efforts by segmenting and selecting appropriate customers for individual marketing programs. A company is supposed to utilize properly its resources on those customers whom it can serve better and create mutual value. However, the objective of a company is not to really prune its customer base but to identify appropriate programs and methods that would be profitable and create value for the firm and the customer. Hence CRM is defined as:-

> "CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customers." (Atul Paravatiyar and Jagdish N.Seth).

It is a strategy used to learn more about customer's needs and behaviours in order to develop stronger relationships with them. The more useful way to think about CRM is a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, and responsiveness and market trends. The idea of CRM is that it helps businesses use technology and human resources to gain insight into the behaviour of customers and the value of those customers.

A business firm can hope of performing the following tasks if CRM is implemented:

- ☞ Provide better customer service
- ☞ Help sales staff close deals faster
- ☞ Simplify marketing and sales process
- ☞ Discover new customers
- ☞ Increase customer revenues

Services are performances or actions rather than objects, firms which are doing business in service sector needs to be more careful because of its nature or characteristic. Because of absence of any tangibility in transaction customer's perception of the product is influenced by service being offered to them. A customer if provided with reasonably good service is certainly a satisfied customer and the continuance of his satisfaction for fairly long time necessitates a mechanism which inter-alia includes the continuous dialogue with customer showing concern for their ever-changing needs and suggesting solutions for those needs. Therefore it can be clearly understandable that CRM plays a dominating role in service sector.

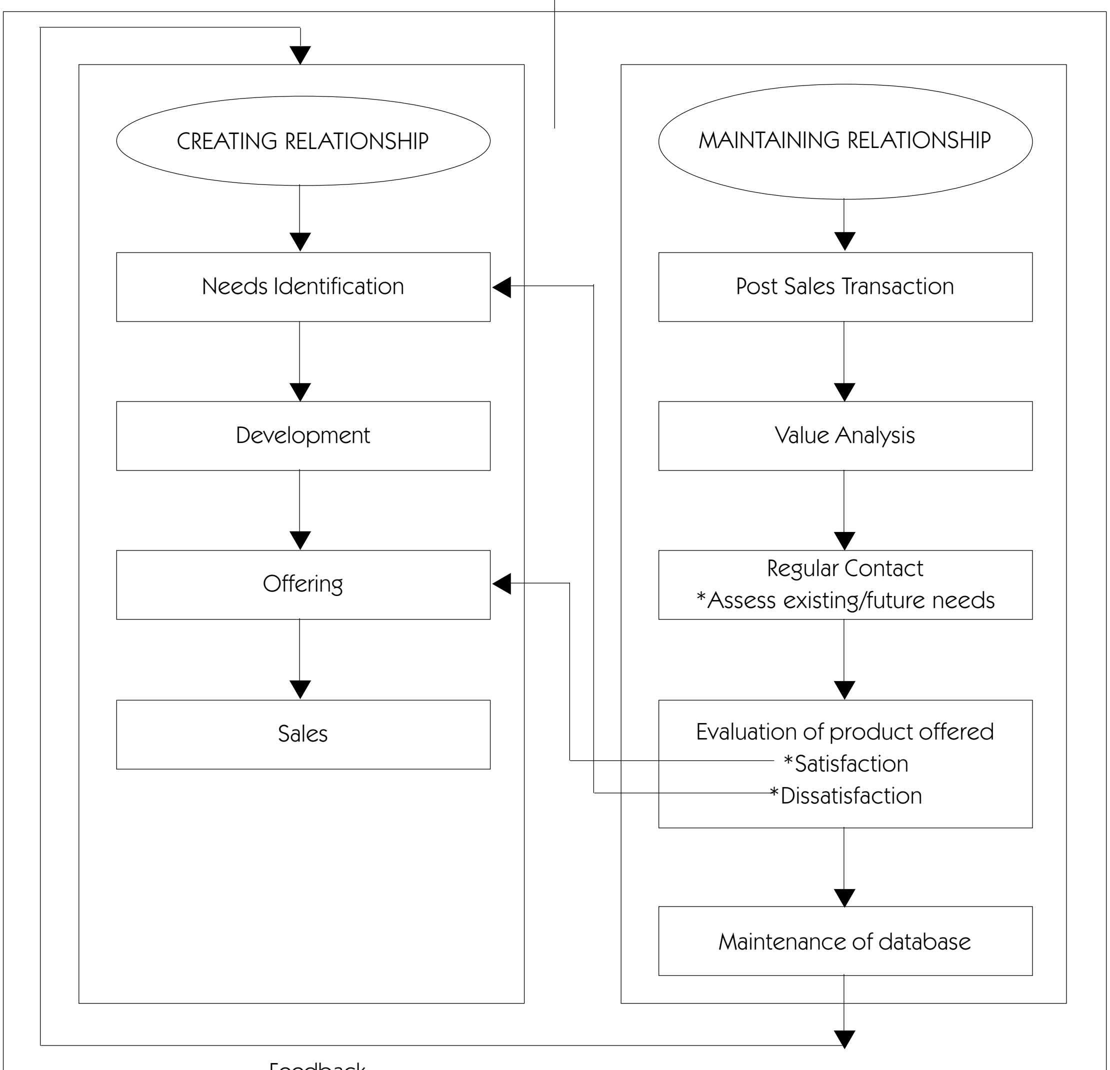
The firms, which are engaged in service sector, have to put enormous efforts in satisfying customer and Insurance business being in the service sector, satisfying customers becomes a natural play for them. As such CRM can be better utilized in reaching customers, maintaining relationships and interacting with them from time to time.

The nature of insurance service demands that it needs to perform a proper analysis of behaviour of customers. Formulating insurance products requires a thorough understanding of customer needs. And understanding a customer is never a simplified task. Insurance companies are ought to put emphasis on understanding customers (actual & potential policyholders). This can be achieved in a more organized way by adopting the concept of CRM.

The objective of this article is to assess the role of CRM program in the functioning of an Insurance organisation, and how better it can be implemented. Here an attempt is made to examine the applicability of CRM as a tool for insurance sector in their marketing strategies. Keeping in view the nature of service sector and more so insurance services, the usage of CRM is a key strategy for the success of insurance companies. With the emergence of numerous companies entering into life insurance business in the Indian market as a result of liberalisation, privatisation and globalisation, all insurance firms have to look at their marketing strategy in a different perspective. They have to formulate innovative marketing strategies to garner the attention of customer.

All marketing programs are woven around customers and now a time has come for them to reformulate marketing strategies in a new avatar. To attain such objectives, firms have to make in-depth analysis of customer. This calls for a new dimension to their traditional marketing strategies. The new dimension is the addition of "customers "to their marketing strategies. Marketing strategies comprises of covering all traditional Four P's. Now another "P" may be taken into consideration as Fifth "P". This fifth P, we would like to refer as "People" in other terms "Customers." Involving customers in the marketing strategies as a variable is what is needed in the present situation.

A model for CRM for insurance sector is suggested in this paper. The model comprises broadly two modules. Module one presents "Creating Relationships" whereas module two shows "Maintaining Relationships." The blend of these two modules constitutes CRM. The suggested model is presented below:



A framework of CRM Model for Insurance services

CRM can be viewed as a combination of creating relationship and maintaining relationship. Creating relationship is the focal point of CRM and relationships are created through *"needs identification."* As a customer will have diversified needs and these needs must be probed further from time to time for existing as well as for prospective customers. A critical analysis of needs provide substantial inputs for the development of product. Insurance needs vary from customer to customer and change with times. A customer having a good source of income at young age will need one kind of policy when compared to his older age. And as needs grow along with his age and sources of income, he seeks altogether different set of insurance plans. Insurance companies, need to offer such plans by recognizing their diversified needs set. For this customers must be encouraged to interact with firms continuously. Exploratory research can be conducted and an evaluation of complaints and suggestions can provide vital inputs for identification of needs. They can be contacted through e-mails regular mails to elicit their expectations. Alternatively they may be asked to post their views onto the firm's websites.

After understanding thoroughly the needs of the customers, the next component would be the development of suitable products matching the varying needs of customers. Development of product is succeeded by offerings. Offering the product to existing and prospective customers is done in many ways. Field staff/Development officers may be asked to popularize such developed product. And as these people form the tangible link with customers, they need to be provided adequate training in interacting with them in a more friendly way and suggesting them the most suitable product, which meets their needs; this is what desired from the field staff. Instead of customer himself asking for products, which suits him, the beauty lies in the company people offering such product after identifying his needs through formal interaction, which is the crux of CRM. This makes the customer more delighted and agents should perform this activity with more enthusiasm apart from looking at the personal benefits, which accrue him in finalizing the deal. Another way of offering the products is through the usage of media such as Internet and T.V. In this current age, Internet is more powerful source of information and it can be used to offer product information on its website presenting with complete information. This infact is performed by all firms. With such kind of information with the customers, they may walk directly to the firms and may buy a plan.

Firms must develop intensive campaigns for general public to constantly visit their websites, which once again becomes the potential source for companies to get certain needed inputs. Internet, is anyway the greatest facilitator for the efficient and effective functioning of CRM, which is termed as e-CRM.

Sale is the final outcome of offering and can be accomplished more comprehensively. In order to make the customer more delighted, the sale may be done at customer's doorstep. Thus he can be given the chance of purchasing the product more conveniently, and enabling him to avoid the elaborate and exhaustive process that he has to undergo unless he wishes to take the product personally. Even if customer come on his own, he should be guided properly and provided every assistance he needs in a more customer friendly manner. It should be borne in mind that treating customers is not only the job of marketing department or more so CRM department. Every member of the organization should bear in his mind that it is everybody's concern to take care of customers. Customer care has become an integrated part of CRM philosophy.

Next module discuss about maintaining relationships. Most of the companies earlier used to feel that their job is completed with the sale of product and slowly this attitude have been changed now, in the context of today's environment. In fact they have clearly understood now that their job actually starts only after the sale. CRM philosophy also emphasizes on this aspect. Truly speaking, CRM focuses a lot on long-lasting relationship with customers and naturally this throws light upon maintaining relationship with customers. Maintaining relationship with customer demands that thorough investigation into the post sale transaction is made.

After sale of the policy to the customer the firms has to adopt a careful interaction with the customer. Post sale transaction enables the companies to identify the gaps in the product vis-à-vis the actual needs. One aspect of the product, like insurance plan is the payment of premium regularly and sending reminders to customers from time to time; this anyway the companies are resorting to. Claims settlement is another aspect where more number of customers complain facing difficulties in getting the amount. This process should be made more flexible and as fast as possible to leave the customer delighted which induces him to buy another product from the company. Firms have to evaluate the product offered in the light of needs identified in the earlier process. Evaluation of product with matching needs of customer gives an idea for the companies to reformulate the plan. A satisfied customer can bring repeat business by taking another plan and there is every chance that he can refer the company's products to others.

Referrals can increase the customer base as such they need to encourage customers to refer such products to others. Incentives and gifts can be offered to those customers who do referrals. But at the same time a dissatisfied customer can switch to other firm. CRM emphasizes the retention of customer. As said, customer retention is comparatively easier than procurement of a new customer. There should be mechanism wherein a dissatisfied customer also interacts with company in revealing his actual needs, so that the company can get an opportunity to go deep once again in identifying such needs. All this can be done through regular contact with customers. One objective of regular contact is to assess the present and future needs. Determining the present needs and visualizing the future needs involves a thorough understanding of customers. Regularly updating the customers with new plans and programs; sending mails on special occasions; conducting various programs involving customers are desired if insurance companies want success.

The regular contact with customer is possible through the customer database. Database plays a prominent role in creating and maintaining the relationship. A database is collection of related data about the existing and potential customer, their buying behaviour as well as an effective tool for projecting the future needs of customers. The database can be built at the time the customer makes a transaction or makes an enquiry (personal, Internet, phone call etc.) as well as from the records of the organization and through the field survey. It is advisable that organisaton itself maintain the database as far as the existing customers are concerned and outsource the database for the potential customer through DATA MARTS, and DATA MAALS. The customer contacts involve the consumption of various resources of the company. As such the company would certainly like to use its resources in maintaining regular contacts with such customers in whom the company finds potential business. The customer potentiality can be assessed through VALUE ANALYSIS, which in turn can be facilitated through DATA MINING. The Value Analysis enables the company to come out with different values assigned to the different customers based on their potential to do business with company in future. Then the company allocate its resources directly in proportionate to the values assigned to the customers.

Insurance sector being a service sector suffers with the deficiency of visibility of products because of which it has to rely solely on the customer's delight. As has been explained in the above lines, the customer delight can be achieved with a careful planning and implementation of CRM model on creating and maintaining relationship. The Information Technology advancement can be harnessed for the designing and implementation of CRM model, which is known as e-CRM. e-CRM can be tailored made to suit the needs of customer or can be purchased from several software vendors like oracle, Siebel etc. However, what is to remember is the implementation of e-CRM alone will not yield any results unless and until the entire organization realizes the significance of CRM and each and every employee involves himself in contributing to the delight of customer.

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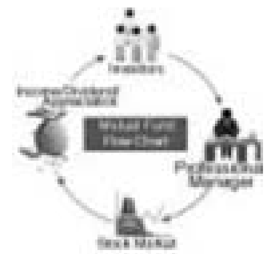
Recent Trends in Mutual Fund Industry



Rama Murthy B.M. and Sudarsana Reddy

Abstract

The Paper examines the concept, importance, growth, emerging trends and future scenario of mutual funds. A Mutual Fund is a trust that pools the savings of many investors who share a common financial goal. Mutual fund industry was established in 1963 and it started gaining popularity due to professional management, diversification, convenient administration, positive returns, low costs services, liquidity, transparency, flexibility, affordability and choice of schemes. It has grown from Rs.25 crores to Rs.1, 53,108 crores under 422 schemes by the end of September 2004.

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The Indian capital market has been increasing tremendously during last few years. With the reforms of economy, industrial policy, public sector and financial sector, the economy has been opened up and many developments have been taking place in the Indian financial market. As a part of development in the capital market and to help the small investors, the Indian mutual fund industry has come into existence in the year 1963. Particularly in the past five years, it has become an important and dynamic sector of the Indian capital markets.

Mutual Fund – Concept

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realised are shared by its unit holders in proportion to the number of units owned by them. The parties involved in the mutual funds are Unit holders, Sponsors/mutual fund, Trustees, Asset Management Company (AMC), Custodian and it is regulated by Securities Exchange Board India (SEBI).

Mutual fund schemes can be classified on the basis of its structure and investment objective. Open ended, closed ended and interval funds fall under structure whereas growth, income, balanced and money market funds come under investment objective category. There are many other new schemes namely; tax saving schemes, industry specific schemes, index schemes and sectorial schemes are also available in mutual funds industry. The following Table - 1 gives the number of schemes as on 30th September 2004 under different categories.

Table - 1 Number of Schemes as on 30th Sept. 2004 (Rs. in crores)

	Open End		Close End		Total	
	No. of Schemes	Amt.	No. of Schemes	Amt.	No. of Schemes	Amt.
Income	132	31195	8	3565	140	34760
Growth	136	6567	2	*NA	138	6567
Balanced	34	489	2	*NA	36	489
Liquid/Money Market	39	175283	–	–	39	175283
Gilt	30	1259	–	–	30	1259
ELSS	20	9	19	*NA	39	9
Total	**391**	**214802**	**31**	**3565**	**422**	**218367**

Source: wwwamfi.com (Association of Mutual Funds of India)

*NA – Not Available

Mutual Fund: Benefits to Small Investors

The mutual funds play an important role starting from pooling money from small investors till they generate returns to the investors. The following benefits explain how mutual funds are important from the point of view of small investors.

☞ **Professional Management**

Mutual Funds provide the services of experienced and skilled professionals, backed by a dedicated investment research team that analyses the performance and prospects of companies and selects suitable investments to achieve the objectives of the scheme.

☞ **Diversification of investment**

Mutual Funds invest in a number of companies across a broad cross-section of industries and sectors. This diversification reduces the risk because seldom do all stocks decline at the same time and in the same proportion. Investor achieves this diversification through a Mutual Fund with far less money than he/she can do on his/her own.

☞ **Convenient Administration**

Investing in a Mutual Fund reduces paperwork and helps investors avoid many problems such as bad deliveries, delayed payments and follow up with brokers and companies. Mutual Funds save investor's time and make investing easy and convenient.

☞ **Return Potential**

Over a medium to long-term, Mutual Funds have the potential to provide a higher return as they invest in a diversified basket of selected securities.

☞ **Low Costs**

Mutual Funds are a relatively less expensive way to invest compared to directly investing in the capital markets because the benefits of scale in brokerage, custodial and other fees translate into lower costs for investors.

☞ **Liquidity**

In open-end schemes, an investor gets the money back promptly at net asset value related prices from the Mutual Fund. In closed-end schemes, the units can be sold on a stock exchange at the prevailing market price or an investor can avail of the facility of direct repurchase at NAV related prices by the Mutual Fund.

☞ **Transparency**

An investor gets regular information on the value of his/her investment in addition to disclosure on the specific investments made by his/her scheme, the proportion invested in each class of assets and the fund manager's investment strategy and outlook.

☞ **Flexibility**

Through features such as regular investment plans, regular withdrawal plans and dividend reinvestment plans, investor can systematically invest or withdraw funds according to his/her needs and convenience.

☞ **Affordability**

Investors individually may lack sufficient funds to invest in high-grade stocks. A mutual fund because of its large corpus allows even a small investor to take the benefit of its investment strategy.

☞ **Choice of Schemes**

Mutual Funds offer a family of schemes that suits investors varying needs over a lifetime.

☞ **Well Regulated**

All Mutual Funds are registered with SEBI and they function within the provisions of strict regulations designed to protect the interests of investors. The operations of Mutual Funds are regularly monitored by SEBI.

Growth of the Indian Mutual Fund Industry

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases:

First Phase (1964-87)

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by the Reserve Bank of India (RBI) and functioned under the Regulatory and administrative control of the RBI. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1987 UTI had Rs.6,700 crores of Assets Under Management (AUM).

Second Phase (1987-1993: Entry of Public Sector Funds)

1987 marked the entry of non- UTI public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC mutual fund (June 89) while GIC had set up its mutual fund (Dec 90). At the end of 1993, the mutual fund industry had assets under management of Rs.47, 004 crores.

Third Phase (1993-2003: Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase (Since February 2003)

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

Table - 2 Total Assets under Management (as on 30th Sept. 2004)

Sector-wise (Rs. in crores)

A. Bank Sponsored	28148
B. Institutions	4555
C. Private Sector	–
– Indian	28514
– Joint Venture - Predominantly Indian	30167
– Joint Venture - Predominantly Foreign	61724
Total	153108

Type and Category-wise (Rs. in crores)

	Open End	Close End	Total	% to Total
Income	50657	2817	53474	35
Growth	24229	1381	25610	17
Liquid/Money Market	62982	–	62982	41
Gilt	5009	–	5009	3
ELSS	524	1084	1608	1
Total	147183	5925	153108	100

The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. As at the end of September, 2004, there were 29 funds (ABN AMRO, Alliance Capital, Benchmark, Birla Sun Life, BOB, Canbank, Chola, Deutsche, DSP Merrill Lynch, Escorts, GIC, HDFC, HSBC, ING Vysya, J.M.Financial, Kotak Mahindra, LIC, Morgan Stanley, PRINCIPAL, Prudential ICICI, Reliance, Sahara, SBI, Standard Chartered, Sundaram, Tata, Taurus, Templeton, and UTI.) which manage assets of Rs.153108 crores under 422 schemes. The following Table - 2 indicates the growth of assets under management sector wise as well as type and category wise.

Recent Trends in Mutual Fund Industry

1. Entry and Exit of Mutual Fund Companies

The most important trend in the mutual fund industry is the aggressive expansion of the foreign owned mutual fund companies and the decline of the companies floated by nationalized banks and smaller private sector players. The reasons for the decline of companies floated by nationalized banks are: i) they did not understand mutual fund business and viewed it as another kind of banking activity ii) they appointed few specialized staff and most of them were transferred from parent organizations iii) they offered guaranteed returns where there is no concept of offering guaranteed returns in mutual funds because the return on mutual funds purely depends on the performance of underlying assets iv) they failed to retain staff and float new schemes etc. The experience of some of the AMCs floated by private sector Indian companies was also very similar. But they quickly realized that the AMC business is a business, which makes money in the long term and requires large investment in the intermediate years. Realizing this, some have sold out to foreign owned companies. Some have merged with others. The foreign owned companies with large investment have come into mutual fund business with the expectation of long-term benefits.

They introduced many new practices such as new product innovation, sharp improvement in service standards and disclosure, usage of technology, broker education and support etc. In fact, they have forced the industry to upgrade itself and service levels of organizations offering mutual funds. That is why UTI have improved dramatically in the last few years in response to the competition provided by these.

2. Investment in Foreign Debt by Indian Residents and Mutual Fund Companies

SEBI has permitted the Indian residents to invest in foreign debt securities with highest credit rating (such as A-1/AAA by Standard and Poor, P-1/AAA by Moody's, F1/AAA by Fitch IBCA, *etc.*) in the countries with fully convertible currencies provided the guidelines laid down in the circular are complied with. Similarly, the Indian Mutual Funds have also been permitted to make investments in non-Indian government securities with highest credit rating such as AAA subject to an overall cap of 10 per cent of the net assets of a Mutual Fund, subject to the maximum of US$ 50 million, per Mutual Fund. This has opened up newer opportunities for domestic mutual funds for investing in foreign securities. This also enables mutual funds to hedge their country risk by spreading their investments amongst different countries. Several funds have announced schemes for such overseas investments.

3. Compulsory Certification of Sales/Marketing Personnel

SEBI together with the Association of Mutual Funds of India has made it mandatory for the sales and marketing personnel of mutual funds to obtain a certification. This requires such personnel to appear for a test, which is currently conducted by the AMFI. The move is to educate the sales personnel on the basics of investment and on the current regulations so as to ensure that no false representations are made to the investors by the sales personnel and is a move towards bringing in more accountability to the asset management company.

4. Mutual Fund Schemes for Real Estate, Commodity, Bullion, Precious Metal Funds etc.

In India most mutual funds concentrate only on financial securities such as debt and equity. They can even take exposure to the physical assets like property, commodities, gold and silver, precious metals by launching Real Estate Funds, Commodity Funds, Bullion funds, Precious Metal Funds etc. respectively. Commodity funds are expected to be more preferred by Corporates who want to hedge their exposure to the commodities they deal with. For instance, A Cable manufacturer who needs 100 tons of copper three months down the line would buy equal amount of copper by investing in Copper Fund. Similarly a person who wants to buy a property one year from now would buy equal value of property by investing in Real Estate Fund. There should be funds to satisfy everybody's requirement. But in India only the tip of iceberg has been explored in mutual funds. AMFI has recently submitted to SEBI, draft guidelines for allowing mutual funds to invest in real estate. The move is in response to a growing need of the real estate sector and also the fact that this sector has proved to be an attractive investment opportunity for investors. Real Estate Investment Trusts (REITS) are popular investment vehicles in the developed markets of the US and the UK and have contributed significantly to the development of that economy.

5. Splitting up of UTI

The Unit Trust of India was bifurcated into two funds viz. UTI I and UTI II. The ordinance was issued by the President of India in wake of the severe payment crisis that UTI had faced on account of its assured return schemes, which resulted in an adverse impact to the Indian capital markets. UTI being the first mutual fund set-up in India has always been a symbol of trust and currently is the largest mutual fund in India. Also, since it was constituted under a special enactment, it was not strictly governed by the SEBI regulations. A need was felt to bring UTI within the SEBI purview and also to ensure that the units are made NAV linked. UTI I now consists of all assured return scheme (including US 64) whereas UTI II now consists of all other schemes which are NAV linked. UTI I has a government guarantee and UTI II will be managed by an AMC formed by The Life Insurance Corporation of India, the Bank of Baroda, The Punjab National Bank and State Bank of India.

6. Shift from Income Funds to Money Market Funds

According to fund statistics released by the Association of Mutual Funds of India (AMFI) for May, 2004, the assets under management (AUM) for income funds have come down to Rs.65,591 crore from Rs.68,308 in April, 2004, and Rs.71,258 crore at the end of

	Banks	Mutual Funds
Returns	Low	Better
Administive Exp.	High	Low
Risk	Low	Moderate
Investment Options	Less	More
Network	High Penetration	Low but Improving
Liquidity	At a Cost	Better
Quality of Assets	Not Transparent	Transparent
Interest Calculation	Minimum balance 10th and 30th of every month	Everyday
Guarantee	Maximum Rs.1 lakh on deposits	None

December 2003. Money has started moving out of income funds and apparently gone into liquid and money market funds, which have seen a rise in AUMs in the recent past. While the assets under management by liquid and money market funds stood at Rs.32,424 crore at the end of December, 2003, the corpus moved up to Rs.54,993 crore by the end of May, 2004. The trends suggest that investors are looking at a shorter time horizon for their investments by switching to short-term plans, which typically invest in securities with maturities of less than a year. This helps them guard against any further downside risk in NAVs arising from a firming up of interest rates. The trend indicates that mutual fund companies would go in for launching more short-term funds with a maturity of less than one year.

7. Shift from Banks to Mutual Funds

Investors are becoming smart and started realizing that investments in savings accounts are as good as locking up their deposits in a closet. Recent figures indicate that in the first quarter of the current fiscal year mutual fund assets went up by 115 per cent whereas bank deposits rose by only 17 per cent. This is forcing a large number of banks to adopt the concept of narrow banking wherein the deposits are kept in Gilts and some other assets that improves liquidity and reduces risk. The basic fact lies that banks cannot be ignored and they will not close down completely. Their role as intermediaries cannot be ignored. It is just that Mutual Funds are going to change the way banks do business in the future. There are various advantages for investors by shifting their funds from banks to mutual funds. The following Table-3 shows the benefits of mutual funds over banks.

8. IPO's of Mutual Funds

Initial Public Offers of mutual fund schemes seem to have caught investor's fancy. New equity schemes launched by domestic funds have raised over Rs.3,900 crore so far in 2004, in spite of large volume of redemptions. The collection through IPOs constituted 75 per cent of overall AUM appreciation for equity funds. The equity assets grew by 21 per cent to Rs.30,000 crore at the end of November 2004, against Rs.24,800 crore at the start of the year. While the existing equity schemes have been doing well, the launch of new equity funds with various themes like core sector, infrastructure, dividend yield, global opportunities, etc, have caught the investors imagination, and hence they have been participating heavily in such equity IPOs. On the other hand, there has been a fall in the AUM of existing equity schemes, as investors today are redeeming from those funds and investing in new fund IPOs that offer them much wider choice.

9. Buying and Selling Mutual funds online

In advanced countries like U.S.A, mutual funds buy-sell transactions have already begun on the Net, while in India the Net is used as a source of Information. When mutual funds buy and sell online, they could facilitate easy access, lower intermediation costs and better services for all. Here are some of the advantages when mutual funds trade online:

- **Lower Costs:** Mutual funds could bring down their administrative costs to 0.75 per cent if trading is done online. As per SEBI regulations, at present bond funds charge a maximum of 2.25 per cent and equity funds charge 2.5 per cent as administrative fees. Therefore if the administrative costs are low, the benefits are passed down and hence Mutual Funds are able to attract more investors and increase their asset base.

- **Better advice:** Mutual funds could provide better advice to their investors through the Net rather than through the traditional investment routes where there is an additional channel to deal with the Brokers. Direct dealing with the fund could help the investor with their financial planning. In India, brokers could get more Net savvy than investors and could help the investors with the knowledge they get through the Net.

- **Target online investors:** Mutual funds can target investors who are young individuals and who are Net savvy, since servicing them would be easier on the Net. India has around 1.6 million net users who are prime target for these funds.

- **Net-based advertisements:** There will be more sites involved in ads and promotion of mutual funds. In the U.S. sites like AOL offer detailed research and financial details about the functioning of different funds and their performance statistics. There are many sites such as *indiainfoline.com,indiafn.com, moneycontrol.com and myiris.com* that are doing something similar and providing advice to investors regarding their investments.

Future Scenario

It is estimated that there are about 180 million households in India, of which only 10 million have invested in mutual funds. In urban areas, 13.7 per cent of households have mutual funds while in rural areas it is just 3.8 per cent. It indicates that there is lot of scope for the growth of mutual fund companies in India provided there are funds to satisfy everybody's requirement and sharp improvement in service standards and disclosure.

The asset base will continue to grow at an annual rate of about 30 to 35 per cent over the next few years as investors shift their assets from banks and other traditional avenues. The mutual fund industry is awaiting the introduction of derivatives in India as this would enable it to hedge its risk and this in turn would be reflected in it's Net Asset Value (NAV). SEBI is working out the norms for enabling the existing mutual fund schemes to trade in derivatives. Importantly, many market players have called on the Regulator to initiate the process immediately, so that the mutual funds can implement the changes that are required to trade in Derivatives. The market will witness a flurry of new players who will enter the arena. There will be a large number of offers from various asset management companies. Some big companies like Fidelity, Principal, Old Mutual etc. are already looking at the Indian market as a large potential market for establishing themselves.

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Corporate Downsizing: Some Trends and Consequences

Balakrishna C.H. and P.Pakkeerappa

Abstract

The last two decades witnessed considerable organizational restructuring, mergers and acquisitions, downsizing and closures. There has been massive change in the technological infrastructure with the advent of microelectronics and the explosion of digital communications. Many firms have reacted to these new pressures by downsizing their labour force. Effective downsizing is expected to improve productivity, efficiency, effectiveness, competitive-ness and it finally leads to overall organizational performance. But, it has negative economic, psychological, social and physical effects on individuals.

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The last two decades of the 20th century witnessed considerable organizational restructuring, mergers and acquisitions, downsizing and closures. These events first hit blue-collar workers in the manufacturing sector and later affected white-collar managers and professionals in all sectors across the globe. Both public and private sector organizations throughout the industrialized world have similarly experienced these transitions.

Many of the features which characterized work and employment relations in the second half of the twentieth century have undergone a process of evolution if not transformation in the past decade or so. Globalisation, liberalization and privatization entail changing hyper competitive environments. There has been massive change in the technological infrastructure with the advent of microelectronics and the explosion of digital communications. Many firms have reacted to these new pressures by downsizing their labour force, restructuring their organization, using flexible employment contracts and introducing lean management system to be competitive and create sustainable competitive advantage.

Downsizing Defined

There is no theoretically agreed way to define the term 'downsizing'. In general, researchers use the term 'downsizing' to mean a deliberate organizational decision to reduce the workforce that is intended to enhance organizational performance. It can also be defined as "a process by which a firm seeks to reduce its overall size and scope permanently, usually the result of changes in the organization's strategy or in the market place" (Anthony et.al, 1993). A wider perspective perceives downsizing as a planned elimination of roles or jobs, abrogation of entire units, and flattening organizational structures or reducing costs, all of which check meaning downscaling of organizational activities (Cascio, 1993).

Downsizing is not the same as delayering or flattening the organizational structure. Downsizing can occur without delayering and delayering can occur without downsizing. It should be noted that, people wrongly equate delayering as managerial downsizing. But delayering is unindependent process (Littler, 2000). Delayering may not result in downsizing because of managerial demotions, or re-location of managers laterally, possibly in new departments, without loss of status.

Trends in Downsizing

The economic downturns of the 1980s highlighted the stress of not having a job across the globe. In US, 10.8 million people lost their jobs between 1981 and 1988(Fraze, 1988). Interestingly, even in the growth periods from 1985-89, 4.3 million American workers lost their jobs. Further, the European countries of France, Germany, Italy, the Netherlands and the UK, 2.1 million people lost their jobs in 1989. In the same year, 3,20,000 Japanese, and 5,22,000 Canadians also lost jobs (Sorrentino, 1993). Companies on the Forbes 500 and Forbes International 800 lists had laid off over 4,60,000 employees altogether, during early 2001 itself. Global job loss is predicted to continue as organizational retrenchment and restructuring continue (Haugen and Meisenheimer, 1991).

Though downsizing is not a new phenomenon it has gained its momentum only recently, since late 1980s. Table 1 depicts the data relating to the downsizing by major companies all over the world during 1998-2001.

Table 1 Downsizing by Major Companies (1998-2001)

Year	Company	Industry	No. of Employees Downsized
1998	Boeing	Aerospace	20,000
1998	City Corp	Banking	7,500
1998	AT & T	Telecommunications	18,000
1998	Seagate	IT	10,000
1999	Boeing	Aerospace	28,000
1999	Exxon-Mobil	Petroleum	9,000
1999	Chase Manhattan Bank	Banking	2,250
2000	Lucent Technologies	IT	68,000
2001	Xerxo	Copiers	4,000
2001	Hewlett-Packard	IT	3,000

Source: Radhika, A.N., "Employee Downsizing," Case Folio, January 2003

India is also not an exception to this new organizational reality, Indian corporate giants have initiated the activities which are aimed at making them learner and meaner. In India, Government and public sector jobs shrank from 19.6 million in 1997 to 19.1 million by 2001 (Aiyar, 2003). Employment in the organized private sector went up from 7.58 million in 1990 to 8.75 million by 1998, but thereafter declined to 8.65 million. After the abolition of industrial licensing in 1991, companies tried to expand as fast as possible. But the boom in output and job was cut short by the Asian financial crisis, which depressed the world markets. Indian companies were adjusted to this new competitive era by shedding job mercilessly.

During the License-Permit-Raj, companies accumulated bloated workforces because labour costs were irrelevant, what mattered was access to licenses. But after delicensing and falling import tariffs, companies realized they had to get lean and mean or die. Companies like Premier Automobiles where wages were 17 per cent of total costs became extinct. Survivors like Tisco and Bajaj Auto are slashing their work forces as fast as they can. Newer corporations like Hero Honda are expanding employment, but they have always been so lean and mean that job growth in absolute terms is modest. Tisco had cut its workforce from almost 80,000 to 43,248 in the year 2002, yet looks bloated compared with a new rival like Jindal Iron and Steel company that employs less than 1500.

Employment trends in Indian industry show that despite of legal hurdles, large manufacturers reduced their workforce significantly in the beginning of 21st century. In the year 2002, TISCO had cut its workforce by 6.5 per cent, L&T by 4.6 per cent, Bajaj Auto by 8.5 per cent, Ashok Leyland by 10.5 per cent, Ranbaxy by two per cent and Madura coats by 30.1 per cent (Aiyar, 2003). It is clear that, in India, and, indeed, throughout the world, downsizing has become the focal point of attention.

Employee Downsizing – The Consequences

The Intended Consequences

The Restructuring and downsizing steps are expected to have economic as well as organizational benefits (Palmer, Kabanoff and Dunford, 1997). The major economic benefit is an increased value to the shareholders. The rationale is that future costs are more predictable than future revenues; therefore cutting costs will improve profits. People can represent a high percentage of costs. Thus, reducing the number of people is a natural response. Other anticipated results are lower overheads, less bureaucracy, faster decision-making, smoother communications, greater entrepreneurship, and increased productivity.

The research studies have indicated that some organizations have derived innumerable benefits. A Canadian study conducted by Axmith (1995) revealed that 85 per cent of surveyed organizations cut costs, 63 per cent improved earnings, 58 per cent improved productivity, and 36 per cent reported improvements in customer service. The wall street journal carried out a survey on companies in the US to find out how many of them were actually achieving their stated objectives of downsizing. The results of the survey indicated that 46 per cent of surveyed organizations reduced expenses, 32 per cent increased profits, 24 per cent improved productivity, 21 per cent increased ROI, 19 per cent increased competitive advantage, and 14 per cent improved decision-making. But other evidences suggest that most restructuring and downsizing fall short of the objectives (Cascio, Young, and Morris, 1997).

The Unintended Consequences

Many restructuring and downsizing efforts fail to reach anticipated financial objectives (Cascio, 1998). To understand why this happens we must consider the impact of downsizing on organizational functioning. A survey of 1,142 firms conducted by the American Management Association (Greenberg, 1990) reported that more than half of them were unprepared for the downsizing, with no policies or programmes in place to reduce the effects of the cutbacks. Surviving managers find themselves working in a new and less friendly environment, stretched thin managing more people and jobs, and working longer. In addition, these companies sometimes replace staff functions with expensive consultants. Some severed employees will be hired back permanently while others will return to work on part-time basis as consultants.

With regard to the productivity, more than half of the 1,468 firms surveyed by the Society for Human Resource Management reported that productivity either stayed the same or deteriorated following downsizing (Henkoff, 1994). A four-year study of downsizing that attempted to identify best practices demonstrated a significant negative relationship between organizational effectiveness and downsizing accomplished through layoffs (Freeman and Cameron, 1993). Cascio (1993) reviewed the literature on the economic and organizational consequences of restructuring and downsizing. He concluded that in many firms, expected economic benefits were not realized (for example, higher profits, lower expense ratios, higher stock prices, greater return on investment etc). Similarly, many expected organizational benefits were not achieved (such as better communication, greater productivity, lower overheads, and greater entrepreneurship). Cascio attributed this failure to the continued use of traditional structures and management practices.

The human costs of downsizing are immense and far-reaching. Acquisitions, downsizing, restructuring, re-engineering, and cultural changes have left the workers saturated with changes (Marks, 1994). The victims and survivors have witnessed the destroyed careers and their paths. Psychological contracts between organizations and individuals are destroyed. Cynicism is up, and trust in organizational leadership is down (O'Neill and Lenn, 1995). Survivors are forced to work harder with fewer rewards. Further, organizational restructuring is a strong stress-inducing factor that has a powerful effect on the attitudes and work behaviour of remaining employees (Greenberg, 1990). The stressors include increased uncertainty and ambiguity, feeling of loss of mastery and control over one's environment, and threats to one's self-concept (Cameron, Whetten, and Kim, 1987).

Studies that examined the survivors' attitudes in the aftermath of corporate layoffs consistently indicate that their job attitudes such as job satisfaction; job involvement, organization commitment and intention to remain with the organization become more negative (Brockner et al, 1992, Hallier and Lyon, 1996). These negative reactions, combined with the fact that survivors must do more with few resources, make the aftermath of layoffs difficult to deal with.

The Managerial Implications

Effective downsizing as mentioned earlier is expected to trigger an improvement in productivity, efficiency, effectiveness and competitiveness and thus organizational performance. At the same time, organizational literature shows overwhelmingly that restructuring and downsizing efforts have negative effects on both individuals (economically, psychologically, socially and health-wise) and organizational performance. Apart from this, it also results in the loss of top talents of the organizations. The early departure of the most qualified employees may leave the organizations suffering from the "Cesspool Syndrome" in which less qualified employees rise to the top (Bedeian and Armenakis, 1998). It should be noted that the institutional knowledge, once lost is lost forever - it could be taken something similar to taking two steps forward and three steps backward.

If downsizing is inevitable, then the ability to manage change effectively to achieve corporate objectives while simultaneously maintaining, if not enhancing, the quality of working life of survivors and victims is a core managerial competence. Hence, it is the onerous task of the HR Department to manage these tensions effectively, timely and appropriately and act on their fundamental belief: "our most valuable resource is our human resource."

It is likely that downsizing will continue to be a significant trend for the foreseeable future. Considering this, the effectiveness of downsizing in the ultimate analysis does not depend on the reduction of headcounts but how the post-downsized environment is managed by HR and line managers. Industry observers acknowledged the fact that the emotional trauma of the concerned people could never be eliminated in the downsized organization. If the HR department fails to manage these paradoxes effectively, the consequence would be 'Human Resource Destruction' and not the 'Human Resource Development.'

One of the reasons for the failure of many downsizing efforts was an overly simplistic approach. Top management equated downsizing with cutting costs through staff reduction. This approach has often been short sighted and reactive, focusing on perceived internal efficiency rather than examining the way organization conducts its business. Simply cost cutting is unlikely to improve the competitive position of most of the organizations over the long haul in the global market place. Many companies which implemented the downsizing are more concerned with their past than their future, which tantamount to the postponement of the long-term investments to realize short term gains.

How to make Organizational Restructuring Effective?

Successful management of restructuring activities requires considerable commitment from organization. To bring about sustained improvements in productivity, quality and effectiveness, it is necessary to integrate reductions in headcounts with planned changes in the way that work is designed. The research literature provides guidance for managers who are leading such transitions. Based on the careful examination of the literature on restructuring and downsizing, the following guidelines are suggested for making organizational downsizing more effective.

Initiation: Planning And Preparing for the Transition

- Integrate the change with business strategy
- Begin with a goal in mind
- Communicate extensively, and involve affected employees
- Establish empowered teams for managing the transition

Implementation: Moving Towards A Change

- Involve employees in all aspects of the implementation effort
- Communicate extensively – tell truth and use a two- way process
- Provide support to managers, survivors and victims
- Monitor the transition efforts- be vigilant for signals of distress and burnout.

Institutionalization: Healing and Refocusing

- Focus on the future and why changes are needed –clarify expectation and responsibilities
- Invest in retraining and development and establish new psychological contract
- Evaluate the effectiveness of restructuring efforts
- Maintain a sound individual and organizational health

Conclusion

Change is increasingly becoming a major component of everyday organizational and managerial life. Change is inevitable and all organizations must adopt to change if they are to survive and to deliver high quality services and products to their customers. Whatever might be the alternatives used for effecting change, organizations must choose it with utmost care. The selected alternative should be the one that suits their organizational culture the best and which would minimize the possible pitfalls associated with downsizing. Downsizing is not a one time, quick-fix solution to enhance competitiveness. Rather, it should be viewed as an essential ingredient in the process of 'Continuous Improvement.' Therefore, responsible downsizing focuses on how to use the current people more effectively, as part of continuous improvement efforts, constitutes a more effective approach.

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An Adjunct to Thomas Steger's "The Axman's anxieties – How East German Management Executives...."

George Sleeba

Though corporate downsizing has become all pervasive today in the business world, the impact of the downsizing processes has been perceived differently by the people involved, probably because of the nature and objectives of the change processes and/or due to the management strategy adopted for its implementation. Downsizing is generally associated with the strategy of large scale workforce reductions for rejuvenating a declining organization and therefore, the focus of researchers has always been to study its negative impact on the people affected by the change programme. It is however, possible to approach downsizing as a positive and purposive strategy designed to improve organizational productivity and competitiveness. Research studies on the phenomenon of downsizing often focus on its impact on the "victims" and the "survivors." But studies of the impact on the "executioners" are relatively few. The East German experience presented by Thomas Steger is a specific study of the "executioners" involved in the downsizing process. Steger has developed a theoretical model that explains how the 'executioners' of downsizing, entrusted with the responsibility 'to decide, to designate, to inform and to justify,' cope with the conflicting interests of the management and the labour. The model also provides a deeper understanding of the perspectives, attitudes and strategies held by these groups of executives involved in the transformation process.

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An attempt has been made here to examine Steger's coping model in the light of the Indian experiences on downsizing. Though the model presents a basic framework to analyse the coping process of management executives involved in the implementation of major change programmes like downsizing, differences in the cultural dimensions and approaches are also seen to influence the executive's coping process. It is also observed that even within the same cultural context, corporations adopt differing approaches depending on its human resource management philosophy and the importance it attaches to corporate social responsibility. This has led to a realization in the corporate world that it is possible to lessen the anxieties and pains associated with axing employees by appropriate, culture-specific human resource strategies, integrated with the corporate objectives. A case study of downsizing in The Fertilisers And Chemicals, Travancore Limited (FACT), a public sector enterprise in India demonstrates that it is possible to undertake downsizing without the associated pains and anxieties, by following a pro-active management strategy with total employee involvement (George Sleeba, 2004). FACT had adopted a restructuring of the organization through delayering its management hierarchy which resulted in the downsizing of the organisation by more than 20 per cent. But, there was no forced lay offs, and the workforce reduction was achieved through a combination of HR strategies like Early retirement, Voluntary retirement, natural attrition and by non-filling up of vacancies caused due to retirements. For the "Survivors" the delayered work environment provided better career advancement opportunity that enhanced their motivation. The FACT experience demonstrates that the key to successful change management in the prevailing public sector environment in India, is its strategy of employee involvement in the change process. In fact, the role of executives in the change process was that of a facilitator than that of an implementor, which made coping process less difficult.

In the coping process model, Steger has identified certain 'intervening factors' that affect the coping process of the executives involved in the implementation of downsizing. In the back ground of the Indian experience, it is possible to identify other influencing factors which are not explicitly brought out in Steger's model, yet significantly affect the coping process of executives involved in downsizing, as detailed below:

i) The approach adopted for downsizing

- Was it proactive, reactive or crisis driven?
- What was the time frame involved - from conceptualization of the downsizing programme to its implementation?

ii) The perceived linkage of the impact (organisational gains) to the objectives (of downsizing)

- Is downsizing justified from the economic, social or socio-cognitive perspective, judging from the visible impact on the organization and/or its employees?
- Does the feedback about the impact reinforces or weakens the management decision to downsize?

iii) The strategy adopted for implementing the change process

- To what extent the actors in the downsizing process were involved in the change process and their concerns addressed?
- To what extent the awareness building and communication efforts were carried out to make the organization and its employees change-ready?

Let us examine each of these aspects in detail:

The approach adopted for downsizing

While examining the coping process, a clear distinction is to be made between proactive, reactive and crisis-driven approach to downsizing. Proactive downsizing involves planning in advance the need for work force reduction and designing appropriate strategies for achieving the intended reduction within a specified time frame in future. The FACT delayering model presents a case of proactive downsizing initiated at a time when the organisation was performing well, with the objective of equipping the organization to meet the on-going challenges and that of the future. In the present changing business environment, pro-active downsizing is widely accepted as an on-going management strategy to retain the competitiveness of organizations. But this requires advance planning and integration of the human resource strategies with the corporate goals. But, most often, managements are forced to resort to downsizing for the sole objective of cost cutting and as a last resort to save the organization from a crisis situation. Closing down of uneconomical operations, stoppage of production facilities consequent to non-availability of input materials or changes in the Government policies are common in India today, as in any other part of the world. Workforce reductions necessitated due to such sudden or unanticipated events constitute reactive or crisis-driven downsizing. No doubt, it causes much pain and anxiety to all those involved and coping with the resulting change process becomes extremely stressful.

When work force separations take place voluntarily, as in a 'genuine' Voluntary Retirement Scheme (VRS), the management decisions are governed by the concept of spareability of the employees and the cost/benefit of doing away with the excess staff. Here, the executive's role is that of a decision maker, evaluating the pros and cons and choosing the right option based on certain established criteria. There is little uncertainty on 'who goes and who stays' and the 'victims,' the 'survivors' and the 'executioners' adjust easily to the changed environment as the decision rules are clear and well laid out. But, when the work force reduction becomes involuntary as in reactive or crisis-driven downsizing - a typical example is a mass lay-off situation – the decision rule often becomes arbitrary. The executive is driven more by his desire to achieve the targeted reduction, rather than to maintain a balance between the organizational needs and employee concerns. The time frame at his disposal is also short and what is expected is quick economic gains. This situation creates much strain and anxiety to the executives involved and coping with the change process becomes difficult. Thus, the approach adopted by the management for achieving the objectives of downsizing and the time frame involved in its implementation are important factors affecting the coping process of the executives. The Indian experience of 'delayering in FACT' shows that large scale downsizing is possible by following a pro-active approach, in a manner acceptable to all the stakeholders involved. The advantage of the proactive approach is that while the organizational goals are achieved, the employees affected – both the 'victims' and the 'survivors' - perceive fairness and equity in the management actions and accept the change process. As regards, "executioners," there is a feeling of accomplishment and resulting satisfaction for being part of the change process and in enabling their organization to meet the emerging challenges. This approach, however, requires a lot of advance planning and preparation. The time frame required to bring about the desired transformation is much longer. This may not be possible in a reactive or crisis situation. Hence, the axman's anxieties are more significant in such reactive or crisis-driven situations, when management resorts to sudden cuts in the work force without preparing the organization or its employees in advance, to accept the impending shock. The coping process becomes more complex and difficult in the latter scenario.

The perceived linkage of the impact to the intended objectives

Another relevant aspect influencing the coping process is the perception of affected employees regarding the impact of the lay off process on the organization, i.e, Whether the downsizing process designed and implemented with specific objectives, for e.g. higher efficiency, higher profits etc. have achieved the intended goals and if so, to what extent? The Indian experience is that the perceived linkage of downsizing to organizational gains can influence the coping process significantly. These influencing factors may be referred to as "outcome related factors." While the espoused purpose of downsizing is to reduce costs and increase competitiveness, empirical research raises doubts against whether these goals have been actually achieved. Implementation of downsizing is a destabilizer of status quo ante. This is true of any organization-wide change programmes like restructuring, delayering, reengineering etc. Whether the work force reduction has taken place through voluntary or involuntary separations, the "Survivors" may not perceive the post-downsizing organizational environment the same as before. Research studies show that in both the cases, the survivors perceive 'burnout, depression, anger and betrayal.' The exception is when the organizational arrangements after downsizing provides for a special dispensation to the survivors for keeping their morale and motivation" high (as in the case of FACT delayering scheme, where the post delayering scenario is characterized by improved career advancement opportunity to the survivors). As far as the management is concerned, their actions are justified only if the intended benefits from downsizing are reasonably met. The management's inability to achieve the expected goals may affect its credibility in the eyes of the victims, survivors and the implementors alike. For the 'victims,' there is a feeling of betrayal by the management. As regards the 'survivors,' doubts are cast on the rationale of the management decisions. They develop mistrust in the management actions and perceive themselves as the targets for the next downsizing drive. As regards the 'implementors,' the inability of the organisation to achieve the intended gains, creates a feeling of guilt, incompetency and loss of face. In contrast, if the organizational gains are visible, it gives credence to the management strategy and acts as a feedback, reinforcing the rationale of the management actions. The executor's confidence level improves for having taken the right step, in the right direction. This is a situation where the end justifies the means. Thus, the perception of employees/executives regarding organizational gains after downsizing and its linkage to the objectives set at the beginning of the change programme play a key role in their coping process. They accept downsizing as a necessary evil, the only option in the prevailing industrial context. They legitimize and assimilate the change, as organizational gains should reign supreme over individual goals. At the same time, perception of a negative impact from downsizing on the organization and the employees and/or the failure of the management strategy to reverse the negative trend in organisational performance may give wrong signals to the employees, making coping process stressful and difficult.

The contributing factors for downsizing could be other than purely economic, though majority of organizations aim for positive economic outcomes from a downsizing exercise. But the fact remains that the competitiveness of the firm in the long term depends on various external environmental factors as well and downsizing need not always offer the right solution. There are other explanations for downsizing, from the institutional perspective and the socio-cognitive perspective though the economic perspective is the most frequently offered explanation. However, since there are only few studies establishing a direct correlation between cutting jobs and financial improvement, the economic perspective by itself is insufficient to fully explain downsizing. The institutional perspective emphasises that the social norms of society or of a particular industry define appropriate organization structures and legitimate company behaviour. Many organizations have adopted 'flat' structures and some even 'flower' structure as part of their strategy to become flexible and more responsive to customers. Such restructuring leads to downsizing as well. Here the motive for downsizing is not so much on the economic perspective but, on the qualitative improvement in customer service or reduction in process time. In this scenario, corporate downsizing is perceived by the actors as an institutional rule, resulting from the social forces. In contrast, the socio-cognitive perspective assumes that a combination of cognitive processes, ideological influences and social interaction between managers leads to an institutional rule in support of downsizing. These are the reasons Steger has identified as 'technical pre-conditions' and 'institutional pre-conditions' for lay off, in the qualitative model of the coping process. However, in the absence of any positive impact of downsizing in qualitative or quantitative terms that results in a positive perception regarding downsizing, it will be difficult for the executives involved to legitimize and accept the change. The Indian experience of downsizing in a public sector enterprise support this view. It is therefore possible that the coping process is affected by the organizational outcome and the individual perception of its linkage to the objectives set before undertaking downsizing. The coping process will be smoother when there is less conflict in the perception of this linkage.

The strategy for implementation – the importance of employee involvement

Another significant factor that affect the coping process is the strategy adopted by the management for implementation of downsizing. It is true that the economic recession of the 1990s had prompted restructuring of enterprises to improve its competitiveness. Almost all these restructuring exercises have resulted in downsizing also. The argument is that global competition necessitates continuous cost reduction and productivity increases and that downsizing is a means to achieve these goals. Despite the absence of supporting evidence that all downsizing have actually contributed to reduction in cost, increase in productivity and enhancement of profit, the assumption regarding the efficacy of downsizing is seldom challenged by managers. As observed by Steger, it has become part of current management fashions to become lean and small. This taken-for-grantedness of downsizing as a strategy for meeting the challenges of economic changes needs to be relooked.

The 'coping model' presented by Steger is to be seen in the specific context of the lay off processes started in East Germany in the early 1990s. With unemployment rate almost double that of West Germany, the mass-scale downsizing had resulted in a situation characterised by 'hampered social relationships and a wide spread atmosphere of suspicion, demotivation and helplessness.' Obviously the management approach was guided more from the economic perspective than from the employee concerns. It is in this context that the German experience at Volk Wagen and the Indian experience at FACT assume importance as an alternative to the traditional approach to downsizing. With opening up of German markets to competition from abroad, globalisation had created pressure on German companies to reduce cost. In India too, the new economic policies initiated by the Government during 1991 had led to liberalization, globalisation and privatization putting competitive pressure on many PSEs. However, reducing cost through quick lay offs is not consistent with the prevailing labour laws in Germany like in India, in contrast to the deregulated labour markets of the USA. What is generally acceptable is an approach that addresses both the organization's and the employees' concerns equally. In the cultural and legal environment prevalent, such approaches provide socially acceptable employee separation / dismissals. The coping process will then depend on how far the strategy adopted by the organization for implementation of downsizing is aligned to the socially acceptable norms.

The example of Volkswagen AG represents an attempt to confront the forces of globalisation without disrupting the guiding principle of solidarity of the German industrial relations and human resource management. A reduction in personal costs had to take place in order to enhance efficiency and to meet the challenge of reduced demand caused by the recession in the automobile market. At the same time, the method for achieving this goal had to be acceptable to the employees also. The various options for solving this problem were evaluated by the management and a creative solution was emerged without using the customary step of mass dismissals. A new employment model with flexible working hours was introduced involving 'four-day-week' (which enabled reduction of working hours by 20 per cent), 'block system'(which enabled employees to take more days off) etc. All these were done by the management to preserve jobs and required some sacrifice from all the employees. The objective was to cut cost, increase productivity, at the same time avoid downsizing. There were problems in implementing the VW model. Reaction of the work force to the UW model was also not that positive mainly on account of the reduction in their pay corresponding to the reduced working hours. Yet the legitimization and assimilation process was smoother in view of the institutional frame work for solving the problem faced by the organization through a policy of creating concensus even when the interest of parties conflict.

The FACT case study provides a novel approach of restructuring in a public sector enterprise in India. It presents another model of socially responsible downsizing for meeting the twin objectives of organizational goals and employee aspirations. The FACT model follows a concensus approach as seen in the UW model. Through a system of delayering the organizational hierarchy (all the PSEs in India have a tall heirarchical structure due to historical reasons), FACT had attempted to reduce the number of managerial layers with a view to increase flexibility and organizational efficiency. The delayering system had resulted in a downsizing of the work force by 20 per cent. However, cultural and institutional factors which is generally pro-labour, hampered a policy of mass lay off. FACT therefore resorted to alternate strategies of work force reduction such as early retirement, and voluntary turnover. In addition, the vacancies arising from normal retirements were also not filled up. A skill level inventory of the surplus employees was created and they were adjusted against emerging vacancies. Many were retrained to fit into the new job requirements. Till such time the work force readjustment took place, it established internal task forces with these surplus employees for undertaking specific assignments on cost reduction, productivity improvement etc. The surplus employees were permitted to avail special leave without pay (SLWP) to enable them to search for external assignments. Besides, they were offered facilities for out-placement also. All these had contributed to a reduction in work force to the expected level. As part of delayering, the executives in the lower and middle management layers were grouped into teams with inter changeable roles. This had facilitated job enrichment and job enlargement, besides job rotation. In addition, the organization had introduced a performance-linked career advancement scheme to improve career advancement opportunities of the 'survivors' and to motivate them for higher performance. The new scheme while meeting organizational goals of higher productivity and reduction in costs had contributed to better motivation of the managerial employees (Job de Han, George Sleeba, Rejie George, Gerald de Groot, 2004).

The distinguishing feature of both the above models of downsizing – VW and FACT – is the approach to the problem and the management strategy adopted for achieving the goals, in contrast to the customary approach to downsizing. In both the models, the organisations were prepared to take the interest of the employees also into account while focusing on the organisational goals, which made the employees to reciprocate. This had helped in getting their willingness to accept the resulting personal disadvantages and made the coping process less painful.

The FACT case study indicates that the coping process is largely influenced by the organizational approach and implementation strategy adopted. Creating awareness of the need for change and preparing the organization for accepting the change should be part of the management strategy to enable coping with the change consequent to downsizing.

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Growing Steadily, Through Uncompromising Ethical Standards and Values

Satheesh Kumar T.N. and Sumi Nair

Abstract

Geojit Financial Services Ltd (established in 1994) has become a household name in the stock-broking field in Kerala. What was originally established as a partnership firm in 1987, has not only made wonderful progress and become a name to be reckoned with in all the areas of stock broking, but also has distinguished itself as a pioneer in many areas. In a freewheeling interview, Mr.C.J.George, promoter and CEO discusses the growth it has achieved till date and the vision for the company.

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Geojit Financial Services Ltd., (Geojit Securities Ltd. in its initial years and hereinafter referred to as Geojit) was established in 1994 as a joint venture with KSIDC Ltd to carry out the activities of stock-broking. What was earlier started off as a partnership stock-broking-firm between Mr.C.J.George and Mr. Ranjit Kanjilal as a Member of Cochin Stock Exchange Ltd. in 1987, was converted into a joint venture company with KSIDC on the withdrawal of Mr.Ranjit as partner following the Harshad Mehta scam, has since become a supermarket for a variety of financial services under one roof. From a small outfit with operations mostly in Kerala, Geojit has expanded to have presence all over India and even abroad with 253 branches and more than 1200 employees. Mr.C.J.George, Managing Director and promoter of the company spoke to Ms.Sumi Nair and Prof. Satheesh Kumar T.N., faculty members of SCMS on the beginning of the entrepreneurial journey, the growth phase, the current status of the company and its future plans in addition to topics like current capital market scenario in India, the investment mindset of the people, whether the markets are overheated today and is in for a correction, the corporate governance scenario in India and what future holds for Indian stock markets.

☞ On what made Geojit succeed

> *"What a fantastic brand you have been able to create & grow, Mr. George." Uday Kotak, M.D Kotak Mahindra Bank (As quoted in Dhanam)*

We had not "planned anything by design" to make it successful. Probably the strategy and implementation worked in the right direction. One major reason for our success could be that we were in the service industry where labour related problems were very less compared to manufacturing industries. And, Kerala has a large number of highly educated young people and those who we recruited have contributed to the growth probably because they thought that they could also grow with the organization. The commitment level of our people has been very high which has helped very much in achieving growth. Also, employees might have been confident that the management is trustworthy.

Geojit was there in the forefront of all developments in the capital market

Consider any positive development in the Indian capital market; Geojit was there at the forefront. We were the first to have the largest number of VSAT terminals. In the depository area, we were one of the first to enter and offer the services. We have in fact been one of the forerunners in developing the depository culture. Geojit was the pioneer in Internet trading. Geojit is the only Indian broking company to hold a license to operate in the Middle East. Again, we have also been the first to enter into commodities market. Of course, compared to Mumbai–based brokers, the volumes were less because about fifty per cent of the investments in stocks come from two states, namely Maharashtra and Gujarat. We were leaders in pushing changes and that has also probably helped us to attract and retain talents.

On the "clean" image

We have an image as a 'clean' broker. No offices of Geojit transacts in cash beyond Rs.100.All transactions have to be only through Cheques.This has contributed to the trust Geojit has among investors and also employees. May be we are branded as conservative, but we try to consciously avoid 'sharp' practices. While many brokers indulge in trading on their own, we never do that .We do trading only for and on behalf of the clients. This has also resulted in improving the credibility of Geojit.

"We strongly believe in sound business practices built on solid foundations of ethics & values"

Mr. C.J.George

On what differentiates Geojit from others

As already pointed out, Geojit never indulges in trading on its own as a policy matter. We only execute trades for our clients. Hence there are no conflicts of interests on this account. Right at the beginning, we had decided to be uncompromising on few things like payouts and deliveries to clients on time. No client had to go back without collecting their cheques or shares on due dates right from beginning till date. And there has been no instances of any client receiving post-dated cheques due to paucity of funds. We strongly feel and believe that in financial markets where we deal with other peoples' money, we have to be strict to earn their trust. We always believed that if we were not honoring our commitments, we had no right to exist. Many brokers in the initial days failed because they were not honoring their commitments. But these days the scenario has changed. Today, there are number of brokers reputed for their 'clean' transactions. May be our strategy was only honesty, transparency and commitment, which helped us to have a solid footing.

"We always believed that if we are not honouring our commitments, we had no right to exist."

On comparing with Mumbai "biggies"

Mumbai based brokers have the edge over others because of the investment climate prevailing in the city, the state of Maharashtra and the neighbouring state of Gujarat. Also, most of the institutional investors operate out of Mumbai and their dealings account for a larger share of the Mumbai based brokers' business. But, at retail level, Geojit is one of the biggest, rated at 6th on all-India basis (Business World: August 1, 2005).

On the Franchisee Model

While all other brokers adopted the sub-broker route for expansion of business, Geojit had chosen the "franchisee" route for expansion. Geojit never had any sub-brokers. In fact, the nomenclature/term franchisee doesn't appear in the SEBI regulations. According to SEBI, there were only sub-brokers. Hence, in the franchisee route, the customer always deals with Geojit – whether it is registration as a client, receiving / paying money/ shares, issue of contract notes and receipts etc. The franchisee network has a brokerage sharing agreement with Geojit. This doesn't violate any of the SEBI directives or regulations as Geojit has the ultimate responsibility as desired by SEBI. The customer is not very much concerned about the intermediary as he/she deals directly with Geojit in all matters. Today, almost all the big brokers are emulating the Geojit business model. Geojit is proud to say that the franchisee model was an innovation from Geojit.

"Today, almost all the big brokers are emulating the Geojit Business Model.Geojit is proud to say that the franchisee model was an innovation from Geojit"

On Indian capital market vis-à-vis capital markets in other developing countries like Thailand, Brazil etc.

On the basis of equity investment culture, we are still behind many of these countries. Of course, India has a very wide market with transactions amounting to Rs.20, 000 crores a day, we are the third largest in terms of number of listings and number of transactions, and the biggest in stock futures. But, the number of investors according to NSDL statistics is only 70 lakhs and the two states of Maharashtra & Gujarat account for about 50 per cent of that. The NSDL figures might, in fact include all investors who made multiple applications during the IPO boom of 1990s. Hence, if we remove such anomalies, the total number of investors may not be more than 30 lakhs.

On market infrastructure in India

I would rate India as number one in terms of market infrastructure. Please note that in US, they are still struggling with T+3 system whereas we have successfully implemented t+2 system .Our market is fully computerized whereas New York Stock Exchange (NYSE) is only computer assisted. A significant volume on NYSE still happens through open outcry. Indian markets are very open and so competitive in the case of brokerage. While Thailand has a minimum brokerage regulation, Singapore has a broker cartel which doesn't allow brokerage to go down below certain levels. The cost of transaction in India, which was anything between 5 per cent to 7.5 per cent, has today come down to 2 per cent to 2.5 per cent. Nowhere in the world has such a drastic fall taken place in brokerage.

"I would rate India as number one in terms of market infrastructure"

On corporate governance in Indian companies and whether market pays a premium for well-governed companies.

In most of developed countries, there has been very clear delineation between ownership and management. Wherever the owners have taken a back seat, encouraged a majority of independent directors on the board and left management to professionals, the corporate governance were better. But, in India, I don't believe that we have even a single company where the ownership and management are clearly delineated. The promoters in India, irrespective of their holding in the company, continue to consider the companies as "my company' or 'my family's company.' The corporate governance in India is very much below the

“FII are continuing to suppor
on their actions.”

expectations of investors. A new generation of promoters and companies shall come to the forefront where they are content with ownership, and management be left in the hands of professional managers. We have a new generation already in the pipeline in the form of Narayana Murthys and Nandan Nilakenis. We need more of them who are not keen to induct their children in to the scheme of things. While institutional investors in India have started taking peripheral interest in corporate governance matters, the retail investors are least concerned about it and are concerned only about returns on their investments. They would tend to put their money with smart people who promise such good returns. That Infosys was promoted as a partnership of six people with no relationship between them rather than people from a family, might have contributed to better corporate governance of the company.

“The Corporate Governance in India is very much below the expectations of investors. A new generation of companies shall come to the forefront where they are content with ownership, and management be left in he hands of professional managers.”

On whether the recent Reliance episode helped corporate India to have a relook at corporate governance in family managed companies

Reliance seems to be above warranted or desirable corporate governance because of its size and it seems that they are allowed to compromise on corporate governance by consciously avoiding raising questions on their practices. Even the Finance Minister said that he was relieved that the issues in Reliance Group have been amicably resolved. Of course, nobody including me wants Reliance to be brought down since they are the shining example of home grown entrepreneurship in a developing country like India besieged with controls till as recently as 1991.

On whether corporates be left to regulate themselves in corporate governance

It should not be left to companies to start with. Without regulators, companies will never go for certain essentials like independent directors. Take the example of Geojit itself. Geojit is a company where independent directors are a majority, including the Non-executive Chairman. At times, even I used to be irritated by the questions raised by these independent board members. But, they have taken keen interest in the company's affairs and precautions to see that sustained existence of the company happens. Today, the senior management of the company knows that it is a board managed corporate.

“When it comes to the real independence of the so-called independent directors appointed by most companies, the situation leaves much to be desired. Most do not necessarily fit into the definition of real independence.”

But when it comes to the real independence of the so-called independent directors appointed by most companies, the situation leaves much to be desired. Many do not necessarily fit into the definition of real independence. The Indian equity investors should act like voters and they should start offering premiums to the scrip of those companies, which are well governed. Once that happens, the regulator can relax and companies can be given freedom to self regulate.

On whether market-making mechanism is essential in scrips that are not regularly traded

Today, no market making mechanism exists. While we had "jobbers" earlier, who were supposed to offer liquidity in scrips, they were dubbed as "robbers" because of the spread jobbers used to demand. But, today there exists no market making mechanisms. NYSE has an excellent market making mechanism and we should also have one on those lines.

On the very few number of listed companies from Kerala

In Kerala, promoters of most of the companies which came out with public issues were of the impression it was their money and had ignored the market which provided the funds. Most of the promoters went for personal luxuries totally ignoring the shareholders who provided them with funds. Naturally, this has resulted in lukewarm responses to public issues from some Kerala-based companies. Another group of promoters don't want to take all the troubles of going public even if it meant constraint on their ability to expand. Both these might have contributed to the situation. The market will provide funds to any good project. It has no bias against Kerala companies.

On the management and leadership style

Geojit as an organization follows highly transparent policies. Even my personal financial transactions are known to almost everybody. We follow only honest practices. We assure all employees that there won't be any compulsion from the management to indulge in any out of the way practices to increase business. We keep on telling our people that there can't be any compromise on honesty & integrity since we are handling other peoples' money. We also endeavor to share the wealth among the employees. A stock-option scheme is also in place.

"Geojit as an organization follows highly transparent policies"

On why Geojit and Mr.C.J.George not making predictions about the market and the movement of indices.

As a policy, I would not like to predict. Of course, I am very optimistic about the future of Indian stock market. But predicting the market based on move-ments of a thirty share or a fifty share index may not be the right thing to do. In earlier days, I also used to watch markets and stock quotes closely; I don't indulge in it today because neither I, in my personal capacity, nor Geojit invest in stock market. Today my job is managing Geojit with more than 250 branches,1200 employees and doing Rs.300 to Rs.400 crores worth of business every day. Of course, Geojit has a research department that analyses companies and recommend stocks for investments.

"Today my job is managing Geojit with more than 250 branches, 1200 employees and doing Rs.300 to Rs.400 crores worth of business every day."

On whether the market is overheated and whether it is ripe for a correction

The market is overheated or rather irrational or funny in its behaviour to the extent that it has ignored some of the recent happenings like flood in Mumbai, the financial capital of India affecting large number of industries there, fire in the ONGC platform or the increasing crude oil prices which has touched all time high levels, all of which have a bearing on the economy. But, there are solid reasons why markets are continuing the upward trend. FIIs are continuing to support the Indian growth story.

"FII are continuing to support the Indian growth story. A lot in the future will depend on their actions."

A lot in the future will depend on their actions. Since FIIS own up to 75 per cent stake in many Indian blue chips, markets will go up when they pump in money into Indian markets and will crash if they chose to sell and withdraw. But, all said and done, I am very optimistic about Indian markets. Recently, I had opportunity to travel many countries and meet many people involved in the capital markets .The general feeling among those people is that India is the only "happening" country and hence a hot destination.

☞ **Whether we are in for a scam (since historically most of the stock market scams in India have taken place after market rallies)**

All the earlier stock market peaks were centered on individuals. Fortunately, today the markets are not apparently driven by individuals. Instead, the institutions are driving it. Hence the chances for a scam seem to be much less.

"Today the markets are not apparently driven by individuals. Instead, the institutions are driving it."

☞ **On which segment forms the target market**

We are not in the upper segment of High Networth Individuals (HNIs). We are in the segments of middle and below. While these segments do not offer high volumes at individual's levels, we have high volume when we look at the whole even though margins are lower.

☞ **On whether offer wealth management solutions**

While we are offering wealth management services, the whole market for wealth management is driven by the fees paid by the companies whose products are sold by wealth managers. The whole process is not necessarily guided by any effort to find out what the customer needs are. The concept will get implemented as a right process only when it is decided to collect fees only from the client.

☞ **On the future of regional stock exchanges**

They are already non-existent. They have all become sub-brokers or franchisees of NSE and BSE.

☞ **On the role of SEBI as a regulator**

SEBI has been doing a wonderful job since inception. They have been very effective as a regulator. There were a number of problems earlier and after the formation of SEBI, most of these problems have been removed and SEBI has been doing an excellent but pragmatic job of regulating the Indian stock markets.

☞ **On Geojit's plans for future**

Considering the experience we have gained in managing assets, an AMC (Mutual Fund) is under active consideration. Other areas will be looked into as we grow and opportunities arise.

☞ **Message to budding entrepreneurs**

Only do "clean" business, show honesty and integrity, do hard work and be committed. Only that will make the firm respected and successful over long term. There are no short cuts. One should be prepared for the long haul. Only hard work with lot of patience will help one grow and go up.

"Only do clean business, show integrity and be committed. There are no short cuts. One should be prepared for the long haul."

The Geojit Fact file

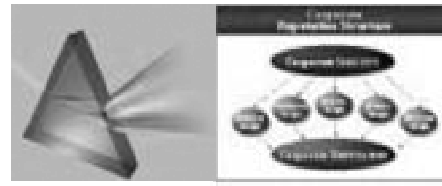
❏ Founded in 1987 as a partnership firm between C.J.George and Ranjit Kanjilal.

❏ Geojit Securities Ltd. was formed in 1994 as a joint venture, which took over the business of the partnership. Geojit was the first ever venture where a

State-owned development institution participating in the equity of a broking firm.

- IPO and Listing on BSE in 1995.
- Becomes a member of National Stock Exchange Ltd. in 1995.
- Registered with SEBI as a Portfolio Manager in 1996.
- Becomes a Depository Participant under National Security Depository in 1997.
- The first to start depository services through Internet in 1999.
- Becomes a member of BSE in 1999; customers cross 50,000 in the same year.
- Becomes the first to start on-line trading in 2000. Also commences derivatives trading and establishes bank gateway for Internet trading in the same year.
- Customer base crosses one lakh and establishes office in UAE to service NRI clients in 2001.Also becomes the first DP in India to launch depository transaction through Internet in the same year.
- Enters insurance distribution on tie-up with MetLife in 2002
- Becomes the first broking house to launch integrated internet trading system for both cash and derivative segments in 2002.
- Sheikh Sultan Bin Saud Al Oasimi joins the Board of Directors in 2002 .
- Listing on NSE in 2005.

The Changing role of Communications in building Corporate Reputation



Vijay Vancheswar

The function of Corporate Communications is slowly but surely coming of age in the Indian corporate sector. From an era of managing the environment through quick-fix solutions, the function is now well on its way to evolving as one consisting of consistent and planned initiatives. These initiatives aim to enhance a corporation's perception across well-defined organisational characteristics amongst its various constituencies. What then have been the prime reasons for this changed perspective of the function? From a role of 'fixing' through the loosely termed function of liaison to one of an objective assessment and analysis involving structured plans that dovetail with an organisation's long-term corporate goals and business objectives?

Three key compelling reasons have jettisoned this change in perspective. Compelling market dynamics in terms of increasing competition, discerning and demanding customers is a primary reason. Secondly, seamless transactions in businesses and information flow thanks to fast moving changes in technology trends has widened the scope and definition of markets. No more are markets confined to defined territories only. The recent trend of outsourcing of resources in the IT/ITES business by global majors to India given its cost competitiveness and deliverables on value for money propositions, is a case in point. Thirdly, and quite critically the growing importance of the subject of corporate governance with its attendant focus on issues of information disclosure norms, be it on financials or corporate developments, has compelled organisations to look at the function of corporate communications in a much more serious and rigorous manner. The spate of corporate debacles such as in the case of Enron and Worldcom in the US and the frequent monitoring of the opened up Telecom sector by the regulatory authorities closer home in India, highlight the need for corporate houses to not just comply with minimum statutory obligations in letter but upgrade compliance standards to a level above so that these are seen to be in true spirit.

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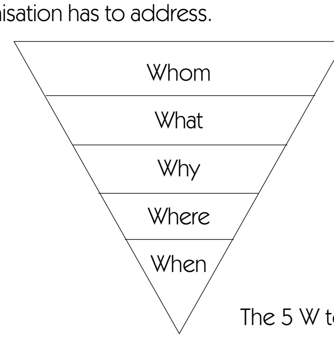
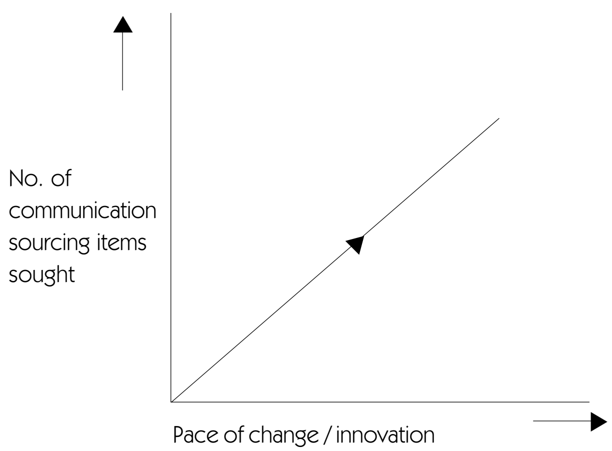
Given the above scenario, increasingly organisations have found the need to take a hard and clear long-term view of the corporate communications function in their operations. To begin with, this has changed organisational perspectives from an 'inside-out' view to an all-embracing 'outside-in' approach.

The starting point therefore is to identify the key external as well as internal constituents an organisation needs to interface with. One approach that communications professionals use to execute this task is to deploy what is generally termed the 5 W technique. This relates to the 'Whom', 'What', 'Why', 'Where' and 'When' aspects of the larger corporate, marketing or employee related issues or agenda an organisation has to address.

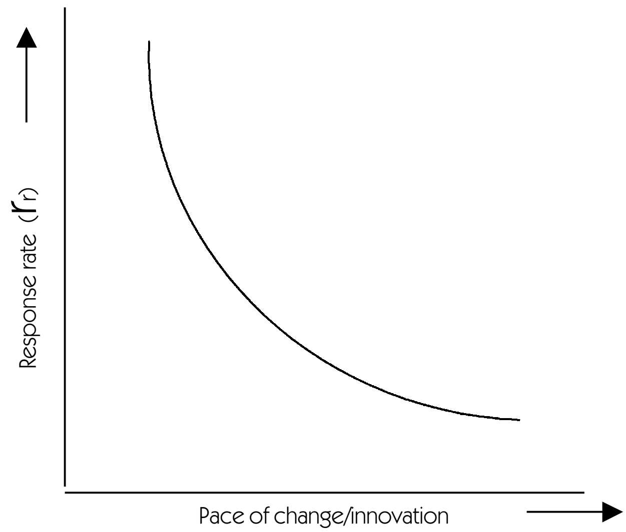


The 5 W technique

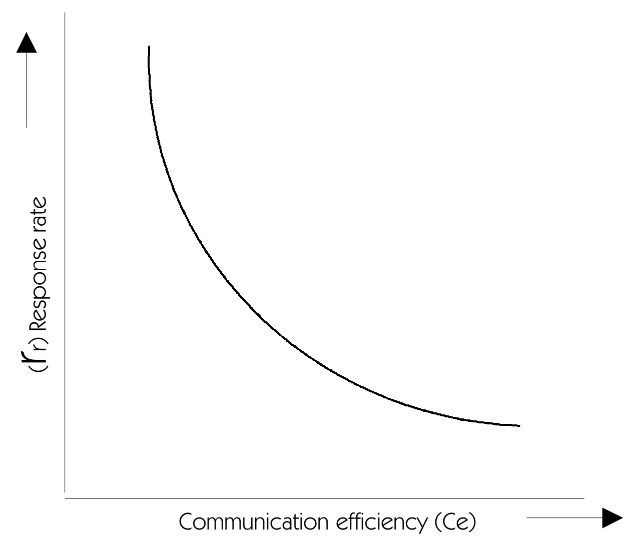
What this does is to structure a task on hand into manageable and discrete but yet cohesive units that enable the communications professionals generate solutions that solve the immediate as well as longer term challenges on hand. This necessarily means understanding the larger organisational and business context, identifying areas involving cross-linkages and sensitivities thereof and projecting possible ‘what-if’ scenarios which call for analysis, understanding and preparedness. A significant challenge for today’s corporate communications professionals therefore is to bring in synergy across multifarious functions and demands. Besides a good understanding of the business environment in which an organisation operates, this calls for an ability to integrate multiple tasks and most importantly, champion the need for transparency and clarity on information sharing across an organisation. Needless to say, this perforce demands interpersonal skills of a high order so as to deal and interface with senior corporate personnels within an organisation. Effectively, the corporate communications person in today’s business environment becomes the watchdog of an organisation’s interests and a reliable resource person of the CEO so that he more often than not drives rather than reacts to the organisational needs, be it in the areas of media scrutiny, legal and financial compliance or brand and corporate awareness building programmes.



In times to come, given the growing influence of technology, advances in cyber-based communications and shrinking time spans in transmitting messages across geographical boundaries across a multitude of communications media, the role of communications in skillfully building the corporate reputation of an organisation will become important.



$$\text{Response rate } (r_r) = \frac{\text{time taken}}{\text{no. of successfully completed communication sourcing items}}$$

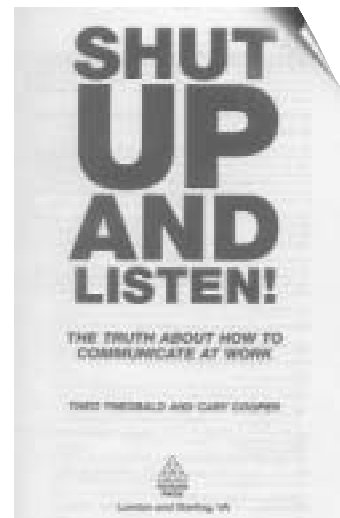


$$Ce \; \alpha \; \frac{1}{r_r}$$

Lower the response rate higher the efficiency of communication

This will become all the more critical in the context of higher customer awareness, expectations and the growing competition across all product and service categories in a dynamic and increasingly competitive environment confronting marketing professionals today.

Skimming and Scanning



Title : **SHUT UP AND LISTEN! The Truth About How to communicate at Work**
Author : **Theo Theobald and Cary Cooper**
ISBN : **0 –7494-4325-1**
Pages : **186**
Original Price : **Rs.795.00 (£ 8.99)**
Special Price : **Rs.225.00**
Publisher : **New Delhi: Kogan Page India, 2004.**

The title of the work is exciting. It evokes emotions: "Shut up and Listen!" It's not tapping. It's not softly heard as much as the sound of the drop of dew falling on to the grass beneath. It is not a soft request. It's slapping. It's striking. It's a shout to 'shut up." It's hard. It's loud. It's authoritative. Beneath the main, there's an underlying title. A subdued one. It's truth. It's in black letters. It's not explicit. The authors strike hard. And so they extract truth. True, it's so. That's the tone of the book, it's tenor: *Shut up and Listen! the truth about how to communicate.* I mean the authors are masterly, meticulous in matters in meeting the requirements of the font and feature of the title. The book as the title demands, keeps us rather spellbound. It keeps us mum. A good listener alone will know "the truth about how to communicate at work." The book is fore-grounded from the space it emerges: the 'work' place.

Communication is vital. It is critical in any of the contexts, which demand articulation of ideas, marshalling senses, and achieving objectives. The book under review is a compendium of rich experiences of not less than twenty masterminds. Theory and practice shall be complementary to each other in an ideal situation. But in real situation, they run parallel to each other. Therefore, they never meet. Academicians generally are cooped up in ivory towers of theory. Practitioners prefer practice. Never do we find compromise. In this context the book bears more relevance. Without maligning theory, theoreticians and their strategies, and without showing prejudice against practice, the authors of the book manage to prepare this book. It's this that demands compliments to the work.

The book comprises three parts. The first part deals with "insight." It deals initially with revelations of "truth about honesty, charisma, story telling and more." It examines in the latter section the question what kind of communicator the reader is. It also probes into the truth about reader's individual style. The second part of the book is more focused. It explicates the truth about reading: context, grammar, tone of voice, and use of plain English. "Persuasion" lifts us to advertising through case study. The "rules of the tools" in writing include how to prepare e-mail, text and web copy. More complications in listening and talking are discussed with close examination of the rules of the tools. Before concluding the part, in "feeling" first impression, body language and culture are examined. The third part relates to planning though auditing, ditching the time wasters, targeting and achieving.

Theo Theobald and Cary Cooper share the toil of authoring the book. Theobald, a former executive, radio copywriter and marketing manager speak on the need to plan what we say and how we say it. Cary Cooper, a Professor of Organizational Psychology and Health, was a commentator and a popular communicator. The authors get the back up from many individuals and backdrop from organization such as Microsoft, the BPL, Nokia, Arsenal FC, Sainsbury's, HSBC and Samaritans. The book gives a prop up to the people to stand tough and terrific tides and also to swim through the waves of drastic changes to make themselves heard in a multi-delivery channel-business world. The book on effective communication, on the whole is the offspring of the marriage of two true minds, who qualify themselves.

Dr.D.Radhakrishnan Nair
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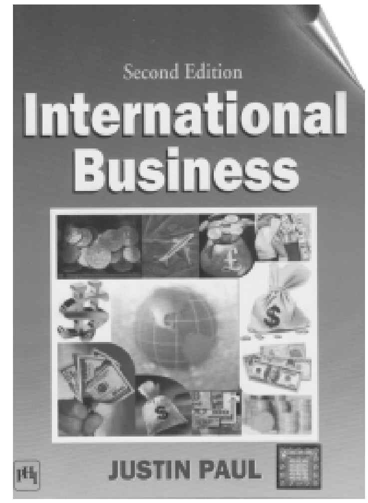
Editor of SCMS Journal of Indian Management
Email: dr_nair2005@yahoo.com

Skimming and Scanning



Title : International Business 2nd Edition

Author : Dr.Justin Paul

Publisher : Prentice – Hall of India Pvt. Ltd.

Importance of International Trade in India is on the rise. Exports and Imports are increasing every year and with that more and more companies are venturing into international business. The demand for the trained personnel in the area of foreign trade is on the rise. It is therefore obvious that there is an increasing need for the books from Indian authors, which cover the various aspects of international business with Indian perspective.

The book authored by Dr.Paul covers a wide range of issues related to international business. It is divided in to eight parts and 27 chapters and gives an analysis of the WTO agreements like TRIPS, GATS and GATT, as well as foreign exchange, risk management, exchange, rate fluctuations and the place of special Economics Zones (SEZs). The book takes into account the rapid growth as well as the many changes taking place in the international business scene, such as the impact of Chinese imports, lesson from the South – East Asian currency devaluation, the Euro Vs US dollar, EXIM (Procedures and Documentation), Intellectual Property Rights (IPRs), FEMA and FDI.

Besides, the new edition devotes separate chapters on

- International Business Environment Country Analysis.
- India's Trade Policy.
- The Global Monetary System.
- Strategy And Structure of International Business.
- International marketing.
- International HRM
- Foreign Trade – Structure And Trends.
- Biotechnology Industry.
- SWOT Analysis of Electronics And Garment Industries.

The author has provided useful information such as Currencies of the world, addresses of Export Promotion Councils, address of Indian embassies in foreign countries and relevant websites etc. Case Studies of companies like Pfizer, Ford, Motor Company, Adani Group and Benetton will be most useful for classroom discussions. The book has an attractive cover page and back page and the overall printing quality is reader friendly. Review questions and suggested further reading will help the knowledge seekers to further hone their skills. Although the book is primarily intended as a text for postgraduate students of management and commerce, the book would be useful for students of foreign trade, economics as well as for executives working with MNCS and exporter/import organization.

Dr.Rajiv Aserkar
Associate Professor,
IIFTR, Indore.

SCMS JOURNAL OF INDIAN MANAGEMENT

Aims and Scope

The *SCMS Journal of Indian Management* is a peer-reviewed Journal. The Journal deems it its mission to submit to the readers fresh fruit of management thoughts and rich cream of current innovative research. The format of the Journal is designed reader-friendly. The academia and the corporates have an easy access to the Journal.

The Journal looks for articles conceptually sound, at once methodologically rigorous. The Journal loves to deal knowledge in management theory and practice individually and in unison. We wish our effort would bear fruit. We hope the Journal will have a long life in the shelves catering to the needs of b-students and b-faculty.

§ Proposals for articles that demonstrate clear and bold thinking, fresh and useful ideas, accessible and jargon-free expression, and unambiguous authority are invited. The following may be noted while articles are prepared.

§ What is the central message of the article you propose to write? Moreover, what is new, useful, counterintuitive, or important about your idea?

§ What are the real-world implications of the proposed article? Can the central message be applied in businesses today, and if so, how?

§ Who is the audience for your article? Why should a busy manager stop and read it?

§ What kind of research have you conducted to support the argument or logic in your article?

§ What academic, professional, or personal experience will you draw on to make the argument convincing? In other words, what is the source of your authority?

§ The manuscript of reasonable length shall be sent to the Editor—*SCMS Journal of India Management* (Both for postal and electronic submission details are given here under).

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§ An abstract (about 100 words), a brief biographical sketch of above 100 words for authors describing designation, affiliation, specialization, number of books and articles published in the referee journals, membership on editorial boards and companies etc.

§ The declaration to the effect that the work is original and it has not been published earlier shall be sent.

§ Tables, charts and graphs should be typed in separate sheets. They should be numbered as Table 1, Graph 1 etc.

§ References used should be listed at the end of the text.

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§ Editors have full right to accept or reject an article for publication. Editorial decisions will be communicated with in a period of four weeks of the receipt of the manuscripts.

§ All footnotes will be appended at the end of the article as a separate page. The typo script should use smaller size fonts.

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