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The Chairman speaks...



Maintaining competitive advantage through effective leadership in the current economic climate is the biggest challenge facing business organizations today.

Transformational leadership is one of the recently developed concepts in management that aims to enable a leader share his vision with his team, gain commitment and motivation, and inspire improved performance. It endeavours to convert the followers into self-empowered leaders capable of exceptional work so that they could serve as agents of change. This model has been acclaimed by many as, perhaps, one of the best models proposed in recent times to practise effective leadership.

Therefore we thought it would be appropriate to carry a well-studied paper on this topic as the lead article in this edition.

While we boast that our country is at the forefront in terms of economic growth, it is unfortunate that we continue to lag behind in the matter of quality of life. India's Human Development Index still remains static at a very low level. In the latest UNDP ranking on the basis of HDI we are ranked at 127 amongst 177 countries. It means that even when we have made sufficient progress to become one among the premier league of world economic growth, such an advantage has not been translated into a commensurate decline in poverty.

Therefore, it is time for us to think of our HRD concept transcend beyond the corporate borders and give due emphasis on social progress. We have pleasure to present to you in this issue a thought-provoking article on this topic.

We hope these and the remaining articles in this edition will make a very interesting reading for you.

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

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Editorial

Taste and Management



The concept of taste cannot now be separated from the concept of consumer. “Taste” and “good taste” have got themselves separated from active human senses and have become much a matter of acquiring certain habits and rules, in spite of its ironic relation to the actual history of the word.

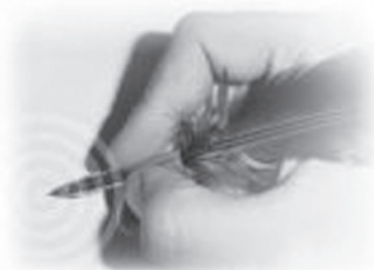
The word “taste” has been in English since 13 century A.D. In the beginning it meant ‘wider than our taste.’ It was rather similar to our touch or feel. It created a tactile experience. The 14 century A.D. narrowed its range down and brought it closer to the mouth reducing it to a mere gustatory experience. “Good taste” in the sense of “good understanding” has been recorded from 1425 A.D. and in the sense of “spiritual taste,” since 1502. Taste later in 1784 A.D. turned into a synonym for discrimination: “that quick discerning faculty or power of the mind by which we accurately distinguish the good, bad or indifferent.”

Gradually, “tasteful” and “tasteless” grew to mean and suggest ideas and concepts of various proportions, permutations and combinations. Taste metamorphosed into a metaphor, taken from a passive sense of the human body and then transferred to things - which in their essence not passive - to intellectual acts and operations.

Business world christened the word “taste” and adopted it into its realm. It is now a powerful addition into business diction. A plethora of applications of taste we note in business. When you are buying or ordering a bottle of Chivas Regal, the natural thing is to mentally visualize how it’s going to taste. In Taste events, taste understands that effective management is achieved by meticulous planning and co-ordination through operational detail and clear communication. A taste of Restaurant Management, diverse, exciting and fast-paced, does not restrict itself to mere culinary control but it transcends to the restaurant industry. Design Print Media have formally been re-branded. It has become Taste Media.

Business uses necromancy to conjure up consumers ‘out of the void’ using the potent wand of brand, induces taste in the consumer for the product, then sells it addressing the consumer *prince/princess or king/queen*, and satiates its desire for profit to the full. Even the taste of the consumer, sometimes, is also a product generated out of the clever and crafty machinations in business. Through branding, advertising and taste building, the product is introduced and launched into the market by the producers. The two ideas: the tactile taste and the business taste in modern times have been developing together responding to aesthetic and business demands affected by the conception that the viewer or reader is a consumer, exercising and subsequently showing certain level of taste. As a company fulfils its desired target on the very first day of the launch of its product, it’s getting a real taste of success. Changing workplaces in a corporate may not be to everybody’s taste.

“Taste and management” deserves attention from the promoters of b-education and research as food industry grooms itself to be the largest industry in the world with its challenges in the fields of producing, processing and marketing.



Dr.D.Radhakrishnan Nair

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Foresight: Transformational Leadership

Niharika Rai



Emotional intelligence is the ability to recognize and regulate emotions both within the self and others. Efforts to apply emotional intelligence to leadership have emerged to the extent that emotional intelligence is now a strong requisite for effective leadership. Transformational leaders are those who appeal to the higher moral values of followers, empower followers and influence commitment of the followers towards the shared objectives of the group. The paper reviews the linking of the emotional intelligence and transformational leadership; it also identifies the existing research gaps, which give direction to future research in the area of emotional intelligence and transformational leadership.

Emotional intelligence, as originally conceptualized by Salovey and Mayer (1990, p.10), “involves the ability to perceive accurately, appraise, and express emotion; the ability to access and or generate feelings when they facilitate thought; the ability to understand emotion and emotional knowledge; and the ability to regulate emotions to promote emotional and intellectual growth.” Caruso, Mayer and Salovey (2002) and Mayer, Salovey and Caruso (2004) suggested that there are individual differences in emotional intelligence relating to differences in our ability to appraise our own emotions and those of others. They further suggested that individuals higher in

emotional intelligence might be more open to internal experience and better able to label and communicate those experiences.



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Since Salovey and Mayer’s (1990) original conceptualization of emotional intelligence, three alternative models of the construct have been proposed, ranging from ability models to non-cognitive models and competency-based models.

According to Mayer, Caruso, and Salovey (2004), emotional intelligence refers to an ability to recognize the meanings of emotions and their relationships, and to reason and problem-solve on the basis of them. Thus, emotional intelligence

describes differences among individuals with regard to understanding and solving problems with and about emotions. Specifically, Mayer, Salovey, and Caruso, (2004) proposed that emotional intelligence consists of four skill dimensions: (1) perceiving emotion (i.e., ability to identify emotions in faces, pictures, music, etc.), (2) facilitating thought with emotion (i.e., ability to harness emotional information in one's thinking), (3) understanding emotion (i.e., ability to comprehend emotional information), and (4) managing emotion (i.e., ability to manage emotions for personal and interpersonal growth). These abilities are arranged hierarchically from basic psychological processes to the more psychologically integrated and complex, and are thought to develop with age and experience in much the same way as crystallized abilities. Further, they are considered to be independent of traits and talents and preferred ways of behaving (Mayer and Salovey, 1993). Thus, perceiving emotion correctly is primary to facilitating thought, understanding emotion, and managing emotion (Mayer et al., 2004; 2002).

Bar-On's (2000) non-cognitive model defines emotional intelligence as an array of non-cognitive capabilities, competencies and skills that influence one's ability to succeed in coping with environmental demands and pressures. Bar-On has operationalised this model according to 15 conceptual components that pertain to five specific dimensions of emotional and social intelligence. These are; intra-personal emotional intelligence representing abilities, capabilities, competencies and skills pertaining to the inner self; interpersonal emotional intelligence- representing interpersonal skills and functioning; adaptability emotional intelligence-representing how successfully one is able to cope with environmental demands by effectively sizing up and dealing with problematic situations; stress management emotional intelligence concerning the ability to manage and cope effectively with stress; and general mood emotional intelligence - pertaining to the ability to enjoy life and to maintain a positive disposition. The 15 components of the model are described as non-cognitive variables that resemble personality factors. Bar-On proposes that the components of this model develop over time, change throughout life, and can be improved through training and development programs, and that the model relates to the potential for performance rather than performance itself (Gardner and Stough, 2002).

The competency-based model of emotional intelligence by Goleman (2001) has been designed specifically for workplace applications. It is described as an emotional intelligence-based theory of performance that involves 20 competencies that is a

learned capability/s based on emotional intelligence that results in outstanding performance at work and that distinguish individual differences in workplace performance. The competencies underlie four general abilities:

- Self-awareness - the ability to understand feelings and accurate self-assessment.
- Self-management - the ability to manage internal states, impulses and resources.
- Social awareness - the ability to read people and groups accurately.
- Relationship management - the ability to induce desirable responses in others.

Goleman (2001, p.27) proposes that the underlying abilities of the model are necessary, though not sufficient, to manifest competence in any one of the four EI domains and that the emotional competencies are job skills that can be learned. Within this context, Goleman defines emotional intelligence as the ability to recognize and regulate emotions both within the self and others.

Transformational Leadership

According to Burns (1978), transformational leaders are those who appeal to the higher moral values of followers. Transformational leaders empower followers and influence commitment of the followers towards the shared objectives of the group. Bass (1985) outlined the four key components of transformational leadership: (a) inspirational leadership, which involves arousal of motivational factors in terms of instilling pride, role modeling, encouraging followers, stimulating enthusiasm and enhancing self-confidence; (b) intellectual stimulation, which involves arousal and change in follower's problem awareness, problem solving ability, of thought and imagination, of beliefs and values; (c) individual consideration, which involves treating followers differently (yet all fairly) on an individual basis and (d) inspirational vision, which involves providing a vision that inspires followers to bring about cultural change. The essence of transformational leadership as proposed by Bass (1985) and Burns (1978) lies in (a) empowering the followers and motivating them to work on transcendental goals instead of focusing solely on immediate interests; (b) elevating the followers' level of maturity and ideals, and also promoting the importance they attribute to achievement; (c) encouraging proper behaviour based on individually selected ethical principles that are logical, comprehensive, universal, and consistent, such as justice, reciprocity, equality of human rights. Seltzer and Bass (1990) suggest

that transformational leadership consisted of three factors- charismatic leadership, individualized consideration, and intellectual stimulation. Charismatic leadership involved endowment with special abilities, envisioning and imparting a sense of mission.

Emotional Intelligence And Transformational Leadership

Empirical studies conducted mainly in business fields have shown the relationship between emotional intelligence and leadership behaviour, conflict resolution styles and interpersonal relations (Sosik and Megerian, 1999; Palmer, Walls, Burgess, and Stough, 2001; Hayashi, 2005). The focus on the leader's ability to manage complex social and personal dynamics, centered in the concept of emotional intelligence, has made the role of emotions in organizations prominent in the leadership literature (e.g., Cann, 2004; Mayer, DiPaolo, and Salovey, 1990; Weisinger, 1998). Efforts to apply emotional intelligence to leadership have started to emerge in the literature (e.g. Barbuto and Burbach, 2006) and have coincided with findings that emotional intelligence is a strong requisite for effective leadership (e.g., Higgs and Aitken, 2003; Sosik and Megerian, 1999).

Positive relationships between emotional intelligence and transformational leadership have been demonstrated in recent studies (Barling, Slater and Kelloway, 2000; Palmer et al., 2001). One study found managers in a plant to show greater idealized influence, inspirational motivation and individualized consideration with increased levels of emotional intelligence (Barling et al., 2000). Another study found management students with greater emotional intelligence to report greater scores in inspirational motivation and individualized consideration components of transformational leadership (Palmer et al., 2001).

Ashkanasy, Hartel and Daus (2002) argued that the components of emotional intelligence are highly consistent with transformational leadership behaviour. Within emotional intelligence, perceiving emotions may be particularly important for the performance of transformational leadership behaviour. Ashkanasy and TSE (2000) suggested that transformational leaders are sensitive to followers' needs. They show empathy to followers, making them understand how others feel. Bass argued that transformational leaders meet the emotional needs of each employee. George (2000) contended that creation of follower excitement and enthusiasm stems from appraisal of followers' authentic feelings. A prerequisite for meeting followers' emotional needs, then, is accurate assessment of how

followers feel. According to the literature on emotional intelligence, these authentic feelings are primarily communicated through facial expressions and non-verbal behaviour (Mayer, Salovey, and Caruso, 2004). Thus, a leader's ability to accurately recognize emotions in followers opens as a window to followers' authentic feelings. Emotion recognition involves the ability to accurately decode others' expressions of emotions communicated through non-verbal channels (i.e., the face, body, and voice). This ability is positively linked to social competence and interaction since non-verbal behaviour is a dependable source of information on others' emotional states (Rubin, Munz and Bommer, 2005). Caruso, Mayer, and Salovey (2002) argued that accurately recognizing emotion in others is critical to leaders' capacity to inspire and build relationships. Indeed, prior research in the area of emotion recognition has demonstrated that facial recognition ability is integral to maintaining successful social and work interactions, including successful marriages, managerial status, and strong clinical and leadership skills (Elfenbein and Ambady, 2002).

The leaders who engage more frequently in transformational leadership behaviour are often found to have higher-quality leader-member relationships than those engaging more frequently in transactional forms of leadership (Graen and Uhl-Bien, 1995). Since leader-follower relationships are critical to successful leadership, and the ability to recognize emotion is important for building strong leader follower relationships, it stands to reason that transformational leaders who build strong relationships do so in part through understanding followers' emotions. The ability to accurately recognize emotions via non-verbal expressions is, then, critical to this relationship-building process. Further, if emotional appeals are an effective means of challenging the status quo (Fox and Amichai-Hamburger, 2001), then transformational leaders must be highly attuned to the emotional feedback they receive when delivering appeals.

A study by Sivanathan and Fekken (2002) revealed that follower "evaluations of leaders" transformational behaviours were positively related to leaders' self-reports of emotional intelligence and resident ratings on leadership effectiveness. Leaders reporting greater emotional intelligence, were perceived by the residents to display greater transformational behaviours. In addition, they were perceived to be more effective.

Building on others work on emotional intelligence, Carson, Carson, and Birkenmeier (2000) developed a measure of emotional intelligence with five underlying factors: (a) *empathetic response*,

the ability to understand the emotional make-up of other people; (b) *mood regulation*, the ability to control or redirect disruptive impulses and moods; (c) *interpersonal skill*, proficiency in managing relationships and building networks; (d) *internal motivation*, a passion to work for reasons that go beyond money and status that involves the ability to delay gratification in pursuit of a goal; and (e) *self-awareness*, the person's ability to recognize and understand his or her own moods, emotions, and drives and their effects on others (Barbuto & Burbach, 2006).

Empathetic Response Transformational leaders rely on empathy to understand followers' thoughts, feelings, and points of view. Studies have shown that empathy is related to leadership emergence in self-managed teams (Kellett, Humphrey, and Sleeth, 2002; Wolff, Pescosolido, and Druskat, 2002). A person's disposition for empathy is a strong determinant of their supportive responses to people expressing distress. Empathy has been associated with interpersonal effectiveness and a relationship-oriented style of leadership. Leaders with empathetic qualities inspire greater depth of self-exploration in followers and the supportive interpersonal orientation increases followers' positive perceptions about the leader, feelings, and job satisfaction empathy predicts leader emergence. That is, leaders with empathy for colleagues are more likely to view themselves as transformational leaders. These relationships also were consistent with rater-reported transformational leadership behaviours, although the relationships were smaller. Studies indicate that leaders' empathetic responses relate to raters' perceptions of their uses of intellectual stimulation and individualized consideration. Leaders demonstrating more empathy also exhibited greater degrees of intellectual stimulation and individualized consideration (Barbuto and Burbach, 2006; Kellett et al. 2002; Wolff et al. 2002; Gardner and Stough, 2002; Barling et al., 2000).

To bring about organizational change through higher performance, transformational leaders must fully engage and connect with their followers. Studies also suggest that the evocation, framing, and mobilization of emotions are key to the leader's ability to change the organization through commitment. Emotional bonds are implicit in transformational leadership behaviours. Leaders who respond empathetically to coworkers can improve organizational effectiveness (Ashforth and Humphrey, 1995).

Mood Regulation Leaders increase the emotional impact of followers' thoughts and attention to tasks when they enable self-determination. Mood regulation is an important skill for leaders to

develop because those who can manage their own emotions cope better with stressful situations than do others (Wenzlaff and LePage, 2000).

Interpersonal Skills Studies show the influence of affect on such work-related behaviours as those involving worker motivation, creativity, and performance, inter-personal judgments and communication, performance-appraisal judgments and selection interviews, organizational spontaneity, employee flexibility and helpfulness, absenteeism, and bargaining and negotiation (Forgas and George, 2001). Lewis (2000) confirmed that a leader's display of negative emotions causes followers to rate the leader's effectiveness lower. Transformational leaders change their organizations by persuading followers to embrace positive visions and ideals, enhance subordinates' satisfaction and trust (Barling et al., 2000; Podsakoff, MacKenzie, and Bommer, 1996; Podsakoff, MacKenzie, Moorman, and Fetter, 1990). Leaders' interpersonal skills were positively related to (both self-reported and rater-reported) individualized consideration, inspirational motivation, and idealized influence (Barbuto and Barbuch, 2006).

Internal Motivation Transformational leaders are actively engaged within their organization and feel empowered; because they believe that they can influence their environment, they are self-motivated to do so (Sosik and Megerian, 1999). Howell and Avolio (1993) found a significant relationship between inner-directed locus of control and transformational leadership behaviours. A study by Barbuto and Barbuch (2006) suggests that leaders' internal motivation was positively related to their self-reports of intellectual stimulation, inspirational motivation, and idealized influence. However, leaders' internal motivation correlated only modestly with rater reports of intellectual stimulation. Past researchers have suggested that internal motivation would relate well to transformational subscales (Barling et al., 2000; Sosik and Megerian, 1999; Howell and Avolio, 1993). However, the role of internal motivation does not appear to be as strong in transformational leadership as they may have expected. Other aspects of emotional intelligence appear to play a larger role in transformational leadership.

Self-Awareness Followers rated leaders who were high in self-awareness as more effective than those who lacked self-awareness (Sosik and Megerian, 1999). Researchers have found that self-awareness leads to greater leader performance (Barling et al., 2000). In a study by Leban and Zulauf (2004), overall emotional intelligence and the ability to understand emotions were found to relate significantly with the inspirational motivation (provide

challenge and a mutual understanding of objectives) component of transformational leadership. In addition, the strategic use of emotional intelligence was found to relate significantly with the idealized influence (demonstration of high standards of conduct, self-sacrifice and determination) and individual consideration (provide support, mentoring and coaching while accepting follower's individual differences) components of transformational leadership.

Some Major Empirical Studies

George (2000) in her paper suggests that emotional intelligence plays an important role in leadership effectiveness and proposes that the ability to understand and manage moods and emotions in oneself and in others theoretically contributes to the effectiveness of leaders. George argues that emotional intelligence enhances leaders' ability to solve problems and to address issues and opportunities facing them and their organization. George proposes that leaders high on emotional intelligence will be able to use positive emotions to envision major improvements to the functioning of an organization. She suggests that a leader high in emotional intelligence is able to accurately appraise how their followers feel and use this information to influence their subordinates' emotions, so that they are receptive and supportive of the goals and objectives of the organization. Leaders within this conceptualization are able to improve decision making via their knowledge and management of emotions, and those who are able to accurately recognize emotions are more able to determine whether the emotion is linked to opportunities or problems and thus use those emotions in the process of decision making.

An exploratory study by Barling et al. (2000) examined the relationship between the transformational/transactional leadership paradigm and emotional intelligence. These authors suggested that emotional intelligence predisposes leaders to use transformational behaviours. The authors propose that, consistent with the conceptualization of idealized influence (a component of transformational leadership), leaders who are able to understand and manage their emotions and display self-control act as role models for followers, enhancing the followers' trust and respect for the leader. Second, the authors suggest that leaders high in the emotional intelligence component of understanding emotions are more likely to accurately perceive the extent to which followers' expectations can be raised, and this is related to the transformational sub-component of inspirational motivation. The ability to manage emotions and relationships permits the emotionally intelligent leader

to understand followers' needs and to react accordingly (related to the component of individualized consideration). Examining leadership styles and emotional intelligence of 49 managers, Barling et al. (2000) concluded that emotional intelligence is positively related to three components of transformational leadership (idealized influence, inspirational motivation, and individualized consideration).

A second examination of the relationship between emotional intelligence and effective leadership has been recently reported by Palmer et al. (2001). The authors predicated that, because transformational leadership is considered to be more emotion based (involving heightened emotional levels) than transactional leadership, there should be a stronger relationship between emotional intelligence and transformational leadership than with transactional leadership measures leadership style. Several significant correlations between transformational leadership and emotional intelligence were observed (Palmer et al., 2001), for instance; the ability to monitor and the ability to manage emotions in one self and others were both significantly correlated with the inspirational motivation and individualized consideration components of transformational leadership. Second, the ability to monitor emotions within oneself and others correlated significantly with the transformational leadership components of idealized attributes and idealized behaviours (combined, these components reflect "charisma"). The authors suggest that two underlying competencies of effective leadership are the ability to monitor emotions in oneself and others and the ability to manage emotions.

Another study by Gardner and Stough (2002) examines relationships between emotional intelligence and leadership using a recently developed measure of workplace emotional intelligence. The Swinburne University Emotional Intelligence Test (SUEIT) provides a total emotional intelligence score as well as scores on five factors:

1. Emotional recognition and expression (in oneself) - the ability to identify one's own feelings and emotional states, and the ability to express those inner feelings to others;
2. Emotions direct cognition - the extent to which emotions and emotional knowledge are incorporated in decision-making and or problem solving;
3. Understanding of emotions external - the ability to identify and understand the emotions of others and those that manifest in external stimuli;

4. Emotional management - the ability to manage positive and negative emotions within both oneself and others; and
5. Emotional control - how effectively emotional states experienced at work, such as anger, stress, anxiety and frustration, are controlled.

The study suggests that the leaders who considered themselves as more transformational than transactional reported that they could identify their own feelings and emotional states and express those feelings to others; that they utilize emotional knowledge when solving problems; that they are able to understand the emotions of others in their workplace; that they could manage positive and negative emotions in themselves and others; and that they could effectively control their emotional states. The outcomes of leadership (extra effort, effectiveness and satisfaction) were all found to correlate significantly with the components of emotional intelligence as well as with total emotional intelligence. Each outcome of leadership correlated the strongest with the dimension of understanding of emotion external that the ability to identify and understand the emotions of others was the best predictor of transformational leadership, idealized attributes and behaviours, individual consideration.

Future Research

Further research might explore the indirect effects of emotional intelligence on the trainability of transformational leadership. There is also a need to explore causal inferences. For instance, it is plausible for one to argue that the nature of the job requiring greater transformational behaviours might in the process increase one's emotional intelligence (Sivanathan and Fekken, 2002). Barbuto and Barbuch (2006) found that emotional intelligence shared little significant variance with rater reports of intellectual stimulation and idealized influence. This result weakens support for previous findings that demonstrated a relationship between emotional intelligence and transformational leadership (Sivanathan and Fekken, 2002). This issue needs to be explored further.

In a study by Barbuto and Burbach (2006), leaders' mood regulation was negatively related to leaders' self-reported intellectual stimulation, inspirational motivation, and idealized influence, indicating that leaders who are less prone to regulating their moods display greater degrees of transformational leadership (self-reported); however, mood

regulation does not precede their behaviour. This result was counter to results that researchers have previously shown that self-regulation of moods to be aligned with effective leadership (Barling et al., 2000; George, 2000). A follow up study on these dimensions may be needed to further clarify the relationships between the variables.

In the same study, leaders' self-awareness shared little relationship with transformational leadership relating only negatively to leaders' self-reported inspirational motivation. This result was unexpected, and contrary to other studies. In the study, leaders' self-awareness explained little variance in transformational leadership, with the exception that as leaders became more self-aware, they perceived themselves as being less inspirational, a finding that was counter to our expectations. Perhaps this finding shows the humility of self-aware leaders, because this finding also reveals that leaders low in self-awareness are likely to view themselves as exhibiting more inspirational motivation. Future researchers examining the antecedents of transformational leadership should use the complete set of subscales (transactional and transformational) to capture the full range of leadership behaviour (Barbuto and Barbuch, 2006). Leban and Zulauf (2004) suggest that further study is needed into the areas of number of linkages between transformational leadership style and emotional intelligence ability, which should help, identify content for appropriate education and training programs for the same.

Further research examining relationships between emotional intelligence and leadership in lower and middle level managers is also warranted. Although the results of this study provide an important platform further to examine relationships between different leadership styles and emotional intelligence, the relationship between actual performance indicators and emotional intelligence in these managers should also be examined. There is also a need for a 360-degree measure of workplace emotional intelligence to complement the self-report measures of workplace emotional intelligence (Gardner and Stough, 2002).

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Beyond Corporate Borders: HRD Transcends

Tapomoy Deb



Ever since the term HRD was coined by Leonard Nadler in 1970, it has been associated with training, education and development of employees in the industries. With successive definitions by other management thinkers, the concept has remained limited to industries only. However, a recent definition by Lynham and Cunningham extends the concept of HRD to play a vital role in nation's economic, cultural and social growth. It is a transformational conceptualization of HRD in terms of its perspectives and is indicative of corporate social responsibility of organization. But the HRD concept still remains incomplete; because it only addresses the issue of social responsibility of HRD in industries. Whereas the objective of HRD is to facilitate economic, social, cultural and political growth and to provide avenues for creation of a better society. Therefore, a broad-based approach should be taken in terms of social development and life quality of people improvement, not in the industry terms alone. Increasing social responsiveness through HRD policies and programmes is crucial to promoting wholesome development and well-being of people. HRD policies and programmes need to ensure effective development and utilization of people, which will enhance their quality of life expectations. The paper explores the social context of HRD and the way it helps as a strategy in enhancing social development of India.

Ever since Leonard Nadler published his now classic book *'Developing Human Resources'* in 1970, the term coined by him: Human Resource Development (in short HRD) has been

associated with training, education and development of employees in the industries little realizing its true context. This is because HRD being a multidisciplinary field is influenced by society and environment.

The debate over the concept has extended over the years with many new definitions being added by Management stalwarts most notably being Watkins (1989), Giley and Egglund (1989), Rogers (2001), Swanson and Holton (2001), etc. In short, HRD has been viewed by these stalwarts as a process of developing

and unleashing human capabilities through learning, training and development for improving organizational performance. However, these definitions still preferred to contain themselves within the

periphery of industries and saw no reasons for extending the conceptual framework beyond industrial boundaries.

While, the concept of HRD has rightfully embodied the improvement of competitiveness of industry, a key economic activity, through human resources for accelerating economic growth and development of a country, yet the term HRD has wide connotations, much beyond the peripheries of organizations intending to stay competitive amidst stiff international and domestic



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competition. However, such narrow interpretations of HRD in the past have become a major impediment in the way of HRD becoming a social concept, not just a professional tool of development intervention. This has prevented successful HRD linkage to social perspective and effective interaction with and within social constituents. Improvement and efficiency for optimization of resource utilization is a key component of not just organizational strategy but human civilization itself. Alvin Toffler's 'waves' only indicates the phases of human development; made possible by man's inherent tendency to improve whatever he has and crave for newer and better options. Therefore, a review and redefinition of HRD is necessary to emphasize its potential contributions and responsibilities to the society.

A recent definition by Lynham and Cunningham (2004)¹ extends the concept of HRD and links other critical predicaments of human society when they define HRD as "a process or processes of organized capability and competency based learning experiences undertaken by employees within a specified period of time to bring about individual and organizational performance improvement, and to enhance national economic, cultural, and social growth." With this definition of HRD, it is now being recognized that HRD has a key role to play in nation's economic, cultural and social dimensions also. It is in fact a transformational conceptualization of HRD in terms of its perspectives by focusing on the linkage of capability development of employees for building organizational capacity which eventually will contribute positively to a country's economic, cultural and social well-being. Organizations can be viewed as a Human-Social system engaged in certain tasks in a structured way by developing technologies. Consequently, organizations have broader responsibilities towards not only their human resources but also society at large. It is now well accepted that these organizations exist for the larger benefit of society. Therefore, this recent definition of HRD is indicative of corporate social responsibility. Commentators may argue that, in view of HRD being seen as an element of corporate social responsibility, playing a vital role in developing socially responsible and responsive industries. With this interpretation, HRD concept still remains incomplete because it only addresses the issue of social responsibility of HRD in industries. A broad-based approach should be taken in terms of social development and life quality of people improvement, not in the industry terms alone.

However, in essence, authors have provided the perspectives of HRD-Economic, Cultural and Social growth for further elaborations and deliberations. It is therefore important to re-look the objective of HRD so that its economic, cultural and social perspectives can

be framed. According to Harbison and Myers (1964)²: "The objective of a strategy of human resource development is to build the skills and knowledge required for economic, social, cultural, and political growth and to provide avenues of participation in the creation of a better society for all who seek them."

Taking a cue from the insights provided by the authors, it is amply clear that without expanding the framework of HRD in the societal, national and global context, HRD will achieve little in terms of human rights and quality of life. It shall be a fair proposition to hold that HRD should be catalyst for bringing changes in economic, cultural and social structures for bringing momentum to national growth and prosperity. As a result, HRD has a collective conscience that provides the catalyst for leadership in social responsibility. Further, the authors point out that people counted into high level human resources categories are expected to have at least a secondary education or its equivalent and equated such human resources to strategic human capital by encompassing the following occupational categories: (a) entrepreneurial, managerial, and administrative; (b) professional personnel; (c) qualified teachers; (d) sub-professional technical personnel; and (e) top-ranking political leaders, labour leaders, judges, and officers of the police and armed forces.

Needless to mention that the greatest resources of the world are the humans, without whom nothing could ever be a resource! In his forward to the Seventh Five Year Plan, late Prime Minister of India Shri Rajiv Gandhi observed: "In the final analysis, development is not just about factories, dams and roads. Development is basically about people. The goal is the people's material, cultural and spiritual fulfillment. The human factor, the human context, is of supreme value. We must pay much greater attention to these questions in future."

In view of the above, looking at India's past, we find that change in Human Development Index (HDI)³ has considerably improved from 0.21 in 1960 to 0.56 in 1998. For instance, the population below poverty line has come down from 64 per cent in 1968 to 25 per cent in 2002. The adult literacy rate has improved from 34 per cent to 50 per cent during the period 1970-1997, which is low not only in comparison with China's 78 per cent, but even compared with an average figure of 55 per cent for all the 'low income countries excluding China and India'.⁴ Attempting to boost employment generation without considering attainment of basic education is likely to be ineffective.

However, the reality is that humans have been treated with such utter contempt—inequalities, unemployment, malnutrition, gender discrimination and social disharmony, to name a few. Today India contains one of the rapidly progressing HIV epidemics in the world with 37 million affected people. The increase is about one-two million every year with total number of infected persons doubling every two-three years. In a study⁵, it was found that a one-year improvement in life expectancy—roughly proxying the health of a country's population—led to about nine per cent increase in gross foreign direct investment inflows. This shows the interrelationship between economic and social elements of development.

This has been largely the scenario in most of the poor countries—articulately called Developing Nations. India has attained independence since 60 years, but still 3/5th of the working population works in agriculture sector and lives in rural areas. Even at the threshold of 21st century, we still have a quarter of global poor here. Education, health, literacy, employment and social harmony are essential base for socio-economic development. At the same time we are world's largest English speaking country with a large highly educated people (we produce more PhDs than UK does) yet in terms of overall international perspectives, we are far behind countries that have not done better than India in many other development aspects such as Ghana, Kenya, Zimbabwe, Zambia, Myanmar and the Philippines.

India is amongst those few countries, which can boast of having a full-fledged HRD ministry at central level. In spite of this we still lack a clear cut and meaningful HRD policy and programmes although HRD being a top down approach can assist in achieving our national goal and a better society. It is worth noting that India is amongst those countries that spend least on social services and social security. Robert Solow⁶, a Noble Prize winning economist, showed that only growth in productivity could cause long-term growth. The business environment in a country, including infrastructure provision and the institutional framework is part of productivity. Therefore, HRD can be viewed as a social capital within the national framework. Nahapiet and Ghoshal (1998)⁷ defines social capital as 'the sum of the actual and potential resources embedded within, available in, and derived from the network of relationships possessed by an individual or social unit.'

The role of social capital is considered vital in modern societies. We have numerous social problems needing urgent attention. Trust and trustworthiness are amongst the most important facets of social

capital besides focus areas such as education, skill development, health coverage, training facilities, changing needs, interest and values of new generation of youth inclined towards knowledge, etc. which requires proactive leadership of the ministry with a firm HRD policy in place. The shortage of trained population is an obstacle to expanding employment opportunities and makes it particularly hard to find highly skilled personnel. The synergy between the focus area and burgeoning economy is necessary to improve HRD capabilities to offset inherent social inequality within social framework. Thus, beyond economics, including industry: the prime economic activity, HRD has a pivotal role to improve people's quality of life.

Nevertheless, changes in society are taking place at a drastic rate where knowledge is increasingly becoming critical for bringing about substantial improvement in quality of life expectations. In our emerging knowledge intensive society, unfortunately HRD concept has paid little attention to the implications of managing knowledge assets towards achieving knowledge sharing in organizations and its dissemination in the social context.

With transformation into knowledge economy taking places rapidly, the only source for attaining and sustaining competitive advantage will be provided by our people if adequate attention is paid to this critical resource. India houses an abundance of extremely potentially valuable human resources which if harnessed properly through systematic HRD policies and programmes can provide cutting edge in global productivity. Recognizing this, The National Knowledge Commission has been set up recently by the Government of India under Chairmanship of Mr. Sam Pitroda with the objective of transforming India into a knowledge society. It focuses five areas of the knowledge paradigm: Access—easy access to knowledge; Concepts—all levels and all forms of education; Creation—effective creation of knowledge; Application—of knowledge systems; and Service—like e-governance.

Hence, increasing social responsiveness through HRD policies and programmes is crucial to promoting wholesome development and well-being of people. All efforts should, therefore, be made to devise and implement HRD policies and programmes for effective development and utilization of people which will enhance not only their quality of life but at the same time will help in bringing more foreign investment to India which is essential for improving its socio-economic conditions.

Therefore, HRD as a suggested strategy for social growth and development should encompass the following aspects:

Basic Education

- Expanding the universal education to ten years and improving quality of basic education for building literate society will help in bringing about higher commitment towards national goals. Besides strengthening of private participation in higher education, focus should now be given in bringing private participation in this sector with public-private partnerships, private extension services, greater NGO participation, etc.
- Basic education at government schools needs to be reformed by improving attendance of pupils through peer monitoring effects, decentralization of supervision at local/village level, free textbooks, free meals, scholarship, free medical check up, some financial incentive for the parents to send their children to the school, especially girl child and monitoring the distribution, quality and performance of teaching staff.
- Higher education institutions need to emphasize quality of curriculum, delivery, teacher student ratio and a competitive distribution of resources based on performance.

Extension Motivation:

- Extension motivation must be used widely to motivate people to contribute in social development; making best possible use of available resources and means. Small community groups can be formed for solving various community and social problems.
- Gandhian concept of trusteeship must be reinforced so that people understand that the goal of life is much beyond materialism; it's a social responsibility.

Productive and Desirable Employment:

- Creation of a healthy society where development effort focuses on generating attractive employment in socially acceptable occupations by focusing on institutional

participation for: (i) reducing susceptibility of vulnerable people; (ii) improving rehabilitation programmes; (iii) removing stigma attached with rehabilitated people; and (iv) Non-employment social assistance should be provided to people registered with public employment exchanges for more than two years with adequate safeguards.

- Vocational Trade Development should be carried out on large scale especially in rural and semi-urban areas in traditional and emerging trades with focus on improving participation of women in employment market.

Institutional Framework for Knowledge Management:

- Infrastructure and institutional framework for pooling and sharing of knowledge shall be created on wider basis with particular reference to research/doctoral studies where no centralized agency exists for providing and in dissemination of information to all those who can be benefited.
- Designing of e-learning systems shall assist in wide scale knowledge pooling and dissemination. Government should create the agency under the Ministry of HRD for the purpose.

Entrepreneurial Development:

- Competitive spirit and a culture of entre-preneurship to expand employment potential by developing self-reliance shall be infused. Innovative means including through media, educational institutions, training and financial assistance with easy accessibility should be effectively utilized.
- Youngsters who have received higher education especially in Engineering, Software, Finance, Management, Social Work, and other knowledge-based professions need to look for employing less privileged people rather than scouting for cozy jobs for themselves. Such people can expand their abilities to participate more fully in the development process.

Social Upliftment

- Greater awareness about AIDs through grassroot level initiatives such as camps, road shows, mobile film shows in schools, colleges, villages and JJ clusters shall be generated.
- Old age homes and related vocational activities in place, with particular reference to female old aged people shall be strengthened. Self-employment and part time jobs should be emphasized as a means of working beyond 65 years of age. Foster parent concept can be modeled so that people inclined can adopt old aged people.
- Efficiency in fund allocation for the poor through lean distribution systems shall be improved.
- Increased social dialogue at national, industry and individual level is essential for making an inclusive and holistic HRD policy.

Globalization is a throbbing and inescapable reality of the 21st century where the 'world is borderless' and 'HRD is boundary less' proposition. Therefore, HRD is both a process and a goal. HRD should not be linked only to industries as it has a larger role to play in the development of the society. Hence, HRD should be considered as the means and end of all developmental efforts emphasizing economic growth coupled with self-reliance and social equity in our quest for a better society.

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Venture Capital Versus SME Financing: Mauritius' Scenario

Sooraj Fowdar



With the scrapping of preferential trade agreements, Mauritius is facing new economic challenges. The government has tried hard in the past to stimulate job creation and growth by boosting SMEs. But the traditional financing via banks failed to deliver the expected result. This paper aims at assessing venture capital fund to know whether it can boost SMEs in terms of growth, job creation and the transformation of innovative ideas into business propositions. Factors that influence the long-term sustainability of the venture capital fund have also been analyzed and assessed.

The Mauritian government has put much emphasis on making SMEs become the growth engine of the economy. Mauritius has been doing well since the early 1980s with an average

growth rate of five per cent for the past 20 years. The main pillars of the economy are the sugar industry, the textile industry, the tourism industry, the financial services sector and, now, the ICT sector. However, in the advent of globalization and the promotion of free trade at international level, Mauritius is gradually losing its preferential trade agreements and has now to compete with firms at international level. The economic model has to be readapted to the new economic climate. However, it is more difficult for small island economies to adapt to changes.



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SMEs have been playing a significant role in developed economies in terms of job creation, promoting economic growth, fostering creativity and, above all, transforming innovative ideas into business

propositions. However, SMEs account for only 20 per cent of the GDP in Mauritius. In order to create the appropriate environment, the Business Facilitation Act 2006 has been adopted this year where a firm can be created in less than three days compared to six month period that was initially needed. In addition, the Empowerment Fund, set up by the government, aims to provide capital for start-ups in any business area where the government will participate to a maximum of 49 per cent of the capital.

The government has attempted to boost SMEs for many years, by providing different types of soft loans and interest bonus schemes via the Development Bank of Mauritius. But the traditional source of finance has failed to do so. Hence, the main aim of this paper is to assess how the SMEs consider the venture capital financing and whether Mauritius has the proper environment for the long-term sustainability of the venture capital fund.

SMEs and Venture Capital Fund in Mauritius

There are over 40000¹ SMEs operating in Mauritius, representing about 25 per cent of the labour employed and accounting to 20 per cent of the GDP. According to SEHDA (Small Enterprises and Handicraft Development Authority), there are 2252² SMEs. This figure is far from the official figures since it includes only SEHDA registered SMEs.

SMEs have different definitions given by several sources. Firstly, the Industrial Expansion Act 1993 considers an SME as a business unit engaged in manufacturing and using production equipment with a CIF value of less than five million rupees. The Central Statistical Office defines SMEs as organizations having less than ten employees. On the other hand, the EPZDA (Export Processing Zone Development Authority) defines a small firm as one with less than ten employees, small firm as one with 10 to 50 employees and a large firm as one with more than 50 employees. SEHDA defines a small firm as one with less than ten employees with a turnover of less than rupees ten millions.

SMEs in Mauritius have been characterized by high employment potential and small capital investment. However, they suffer from lack of capital, difficulty in accessing to new technology, poor managerial skills, lack of market intelligence and absence of adequate business premises. Given that the government wishes to promote the ICT sector in its attempt to further diversify the economy, it is expected that start-ups in high-tech areas will need all types of support from the government. Therefore, venture capital fund can be considered as an alternative solution to address the problems faced by SMEs and start-ups in Mauritius.

There are three main established venture capital fund in Mauritius. These are the Venture Capital Partners, the DBM (Development Bank of Mauritius) Venture Capital Fund and the National Equity Fund. This year the government has created a new venture capital fund (the Empowerment Fund) with the aim of promoting entrepreneurial

activities and giving a formal structure to informal business units. This fund is managed by Enterprise Mauritius and the Ministry of Commerce and Industry.

The Venture Capital Partners (VCP) was established in 1995 and it operates two funds namely the Mauritius Venture Capital Fund (MVCF) and the Indian Ocean Regional Fund (operated in the offshore sector). The bulk of the MVCF goes to the tourism and telecommunications sector, followed by the textiles industry. However, one main problem in addressing the financing of small firms relies in its definition of a small firm. In fact, the VCP defines a small firm as one having a turnover of over rupees three million or having a capital of over Rs.1.5 million. These criteria eliminate many firms, especially start-ups from having recourse to venture capital financing.

Hence, the government decided to create the DBM Venture Capital Fund to fill the gap left by VCP since the latter does not invest in start-ups and seed capital. In addition, the government also launched the National Equity Fund in 2003 in order to promote SMEs in sectors as cotton spinning, ICT, biotechnology and other strategic areas. This fund not only provides seed capital but also provide financing of expansion and restructuring.

Literature Review

Venture Capital Fund

Venture Capital refers to money made available for investment in innovative firms especially in high technology, in which both the risk of loss and the potential for profit is usually high. It is an important source of funding for start-ups that do not have access to the traditional means of financing namely banks and capital markets. Venture Capital is a form of intermediation that is well suited to support the creation and growth of innovative, entrepreneurial entities³. In fact, the venture capitalist specializes in financing and nurturing companies at an early stage of development (start-ups) that operate in high-tech industries. The managerial and entrepreneurial expertise of the venture capitalist, together with his network of contacts is useful helping the SMEs to unfold their growth potential⁴. However, Michelacci and Suarez (2004) argue that when companies operating in technologically mature industry are financed by venture capital fund at a later stage of their growth, the impact on growth is lower.

The positive role of venture capital has been emphasized by a wide range of literature. This has been highlighted in Table 1.

Table I: Benefits derived from Venture Capital Fund

Research undertaken	Benefits of having recourse to venture capital financing
Gompers, Lerner, Scharfstein (2003)	Creation of Start-ups
Hellmann, Puri (2000) for the US Bottazzi, DaRin (2001) for Europe Engel (2002) for Germany	Enhancing growth of firms
Hellmann, Puri (2002))	Professionalisation of firms
Rindermann (2003) or Jain/Kini (1995)	Better Operating Performance
Keuschnigg (2001	Positive impact of economic growth
Kortum/Lerner (2000)	Enhance innovative activities

Venture Capital financing brings together one or more entrepreneurs, and private investors. These entrepreneurs bring their ideas, plans and human capital while the venture capitalists bring the expertise, network and, most importantly, the required finance. The important features of venture capital financing are sweat equity, staged investment and financing, control, syndication of later-stage financing and exit. Sweat equity refers to the opportunity cost of the entrepreneur even if he is not contributing to the financing of the firm. In fact, he contributes his effort and absorbs part of the firm's business risk. In addition, specialization of his human capital to the new firm also creates an opportunity cost if the firm fails. The entrepreneur receives shares or options in exchange for his commitment to the firm (investment in human capital). Bottazzi and Da Rin (2001) argue that these shares are illiquid unless and until the firm is sold or goes public. However, the venture capitalist may require the entrepreneur to sign a contract that precludes work for a competitor so that the entrepreneur sticks with the firm and works hard to make it successful.

Financing and investment are made in several stages. The latter is delineated by business milestones, such as a demonstration of technology or a successful product introduction. Usually, the entrepreneur and venture capitalist do not write a complete contract to specify the terms of future financing. The financing conditions are determined by bargaining and negotiation at each stage. If additional private investors join in later stages, the bargain has to be

acceptable to them as well as the entrepreneur and initial venture capitalist. Bottazzi and Da Rin (2002) explain that venture capital investors usually buy convertible preferred shares. If the firm is shut down, the investors have a senior claim on any remaining assets. The shares are converted to ordinary shares if the firm is sold or taken public.

Moreover, the venture capitalist does not have complete control of the new firm. For example, Kaplan and Stromberg (2003) found that venture capital investors rarely hold a majority of the board of directors. However, if the progress of a firm is not satisfactory, the venture capitalist may wish to increase his control. Staged financing can give the venture capitalists effective control over access to capital needed for the next stages. Their refusal to participate in the second or later rounds of financing would act as a strong negative signal to other potential investors and consequently deter them from investing.

Bottazzi and Da Rin (2002) state that in practice, the venture capitalist decision not to participate is a decision to shut down the firm. This veto power of the venture capitalist over the later stage urges the entrepreneur to manage the firm efficiently. D'Argensio (2002) further argue that the shutdown decision could not be left to the entrepreneur since the latter would have no problem in continuing to invest someone else's money even if the probability of success is low. Since the venture capitalist has the necessary skill, he is better equipped to decide whether to finance the next stage of the business.

Thus, staged financing hinders the entrepreneur's will to invest more as opposed to the venture capitalist's need to reassess the profitability of the project. However, the venture capitalist can use the threat of shutdown to negotiate terms for later-stage financing that dilute the entrepreneur's stake in the firm. Anticipated dilution may dampen the energy and commitment of the entrepreneur, and hence reduces the overall value of the firm.

Finally, venture capitalists expect to "cash out" successful start-ups. Da Rin, Nicodano and Sembenelli (2005) explained that venture capital generally comes from limited-life partnerships; the partners are not paid until the start-ups they invest in are sold or taken public.

Venture Capital Fund as a source of growth for SMEs

The definition of SMEs varies from country to country. The classification can be based on the firm's assets, number of employees, or annual sales. The International Finance Corporation defines SMEs as firms with less than 300 employees and total assets less than US\$15 million. In smaller economies, SMEs are defined as less than 20 employees.

Whatever the definition, and regardless of the size of the economy, the growth of SMEs throughout the region is crucial to regional growth.

The most common problems faced by SMEs in many countries are the lack of access to market information and technology, the low quality of managerial and marketing skills and the lack of access to capital. The availability of external finance for small and medium enterprises (SMEs) is a topic of significant research interest to academics and an issue of great importance to policy makers around the globe.

Venture Capital Fund can be considered as an alternative source of financing for SMEs. Venture capital financing is essential at the early and expansion stages of innovative SMEs, when the net cash flow of the company may be low or inexistent. Traditional bank lending could be unsuitable in such conditions where the company is not yet ready to assume interest payments. Moreover, the repayment of principal and interest payments on a bank loan limits cash flow flexibility at crucial times. Innovative growth-oriented firms often need large amounts of financing to invest in R&D, marketing and training. In addition, the information asymmetries between the

entrepreneur and the bank are particularly pronounced in the case of innovative firms. The bank may be missing the skills needed to evaluate the technology of a start-up. According to EVCA⁵, 95 per cent of companies stated that without venture capital investment, they could not have existed or would have developed more slowly; almost 60 per cent said, that without the venture capital fund the company would not exist today and finally, the venture capital financing is more appropriate for start-ups with high growth potential than traditional financing.

The creation of venture capital markets which provide strong support for early stage and high-tech ventures has received a high priority by economic policy, since it helps to achieve economic growth and job creation⁶. Megginson (2004) concluded that as economies become ever more dependent on innovation and entrepreneurship for achieving sustained growth, governments around the world have been trying to replicate the diffusion and success that venture capital has achieved in the United States.

Two major problems faced by SMEs in the process of the transformation of an innovative idea into business proposition are the lack of capital and often the poor managerial background of the owner of this idea. Venture capital financing offers a joint provision of capital and managerial support. Then, venture capitalists play an active role in advising the firms in which they have invested, providing them with an established network and helping them make crucial decisions. Additionally, when a well-known venture capitalist finances a firm, the latter's credibility increases in the market.

Since the Asian crisis, venture capital fund has grown rapidly in Asia. The activities of venture capitalists are mainly concentrated in Japan and Korea. Hong Kong and Singapore are also centers of the regional venture capital activities. There is evidence that private equity in economies like Korea and Japan is used to replace sources of funding not available from traditional institutions. McKee and Dietrich (2003) concluded that private equity is not used to finance high-tech firms, but rather to finance the restructuring of established firms in the traditional industries. They also found that venture capital in Taipei (China) is concentrated in high-tech investments and started from fund managers with experience in the US venture capital industry.

The venture capital industry of Malaysia has through the years progressed significantly as an alternative source of financing to the economy. By the end of 2005, the total available funds for venture capital investment increased by 14.3 per cent to RM 2.6 billion

compared to 2004. Moreover the total number of venture capital funds has increased to 48 in 2005 compared to 38 the previous year while the number of venture capital management companies has increased to 39 compared to 34 during the same period. In parallel, the number of SMEs has grown by over ten per cent during the same period.

The biotechnology sector in Europe is lagging behind that of the US. Engel (2002) points out that biotechnology has been identified as an area of prime importance to the future economic development and competitiveness in Europe. Europe lags behind the US in most indicators of economic performance in biotechnology. For example, according to the European Commission (2003) quite successful basic research has been conducted over the years at universities and research institutes in Germany, but these innovative progresses in research could not be translated successfully in the German pharmaceutical market [Fluck, Kedran and Myers (2004)].

The successful transformation of academic research into business practice depends on several variables. Haar (2001) argue that one important factor has been legislative and institutional measures, such as supportive patent rules and public technology transfer offices. Hellmann (2000) adds that another major factor that explains the success of the US biotechnology sector is the active role of venture capital funds in financing biotech enterprises.

The relation between innovation and venture capital fund is not that simple. Lerner (2002) assesses the implications of the recent collapse in venture activity on innovation. He argues that though there are many reasons for believing that, on average, venture capital has a powerful impact on innovation, the impact is far from being uniform. In fact, during boom periods, over-funding of particular sectors can lead to a sharp decline in terms of the effectiveness of venture funds. On the other hand, during recessions good companies may find it difficult to get the necessary finance. However, he added that this is not a generalized phenomenon.

Factors that affect the setting up of Venture Capital Fund

Factors that affect the setting up of venture capital funds are mainly government policy, the involvement of the pension funds in project finance, macroeconomics variables, IPOs, fair and good accounting practices and the commitment of banks in financing SMEs.

Many governments are finally recognizing the benefits of venture capital financing. Lerner (1996) demonstrated how government intervention could have a positive effect on venture capital funds. Similarly Europeans have become aware that they have really lagged behind the US in terms of the venture capital market. The provision of risk capital is crucial for the creation and growth of innovative SMEs. Europe's venture capital market is, however, half the size of that in the US. To this end, the European commission is making efforts to enhance the functioning of a single European market and by the same token helping its venture capital market.

Similarly certain policies adopted by the US government have also helped the success of venture capital financing. Gompers and Lerner (1998) explained that relaxation of the "prudent man" rule in the US at the end of the 1970's allowed the rapid growth of venture capital in the 1990's to occur. However, O'Shea (1996) argued that there might be some disadvantage to government efforts. For example, government spending on venture capital funds may hinder the development of a private venture capital sector.

The pension fund industry is considered as an important source of finance for risk capital. Venture capitalist can quickly raise large sums of investment fund solely by approaching a few large pension funds. At the end of 2001, over 50 per cent of capital investment to venture capital funds in the US came from pension funds (National Venture Capital Association, 2002). In Canada, pension funds were the most important institutional source of capital investment to private equity funds with 30 per cent of the capital investment at the end of 2001 (Goodman and Carr Report, 2002). Hence, pension fund investment in venture capital is an important factor to venture capitalists.

Acs and Ausretsch (1994) conclude that macroeconomic fluctuations have an impact on start-up activities in general. Macroeconomic expansion is seen to have a positive stimulus on the number of start-ups. Since an increase in start-up activities requires a rise in demand for financing sources it can be expected that there exist a positive relationship between macroeconomic expansion and venture capital investing.

The major risk that investors and venture capitalist has to face is that of not getting their money back. Hence, the development of an efficient exit route is crucial for the development of a venture capital industry. There is a positive link between IPOs and venture capital financing.

Moreover, venture capital financing has often been preferred to bank financing. Ueda (2000) studied the choice of financing sources when venture capital can assess an entrepreneur's idea better than banks can. He finds out that the entrepreneur has to incur a signaling cost due to the bank poorer assessing. In addition, low collateral, high growth and high-expected return of a given business lead to a greater asymmetry of information. Thus, the entrepreneur prefers to finance through venture capital fund.

Methodology

Primary data were collected through a survey using questionnaires. The population of SMEs includes 2252 registered firms at SEHDA. The sample of study consists of 200 firms in different sectors (agriculture, manufacturing, energy, construction, hotel, transport, communication and financial services) drawn at random. A pilot test was carried out with 10 firms and the questionnaire was amended accordingly. The questionnaires were sent by post to financial managers or people with similar job in the targeted sample in June and July 2006.

Analysis and Discussion

Descriptive analysis

The overall response rate was 52 per cent. The classification of the respondents is given in Table 2. All of the respondents were from the manufacturing sector, the construction industry, the financial services and business services and the ICT sector. The response rate from agriculture and mining was nil.

Out of the 104 respondents, 52 per cent were Corporate or Administrative Managers, 32 per cent were Managing Directors and 16 per cent were Financial Managers. The respondents have been classified by size using the criteria provided by EPZDA (Export Processing Zone Development Authority). Small firms accounted for 60.6 per cent of the sample and, medium enterprises accounted for the remaining.

Only 72 per cent of the respondents stated that they understand or at least had knowledge on venture capital. Surprisingly, among those who stated having some knowledge of venture capital, only 52 per cent managed to define venture capital fund properly. However, 56 per cent of the overall respondents were not aware that venture capital financing was available in Mauritius. Only 24 per cent of those who were aware of the existence of venture capital funds had used such

financing. The main reasons for not using such finance was the lack of information available, lack of clear advice on procedures to follow and the perception that venture capital was riskier and the cost of financing was higher. In addition, a few managers were not aware whether their business were eligible and suitable for venture capital finance.

Table 2: Classification of Respondents by Industry

Sectors	% of Respondents
Agriculture and Fishing	0
Mining and Quarrying	0
Manufacturing	39
Construction	8
Financial and Business Services	20
Information and Communication Technology	33

Those who have used the venture capital fund argue that it is cheaper compared to traditional bank financing and no collateral is needed in venture capital financing. In fact, the risk adversity of banks urges banks to ask a higher risk premium and hence a higher interest rate compared to venture capital financing. Moreover, the firm using venture capital financing benefits both in terms of financing and expert managerial and technical advice. The venture capitalist by closely monitoring the project ensures that the entrepreneur is successful. Stage financing further guarantees success since the entrepreneur is aware of the conditional financing and any mismanagement of the project will lead to the venture capitalist exiting from the firm.

Several factors affect the setting-up of a venture capital firm. These are freedom of labour movement, efficient financial reporting standards, initial public offering, government incentives and progressive macroeconomic variables. The firms were asked to rank these factors by degree of importance in a scale of one to five, with one being the least important and five the most important. The most important factors are government incentives (mean score of 4.6) and efficient financial reporting standards (mean score of 4.5). IPOs and progressive macroeconomic variables are considered to be important (mean scores of 4 and 3.8 respectively). Free movement of labour has no incidence of the setting up of the venture capital fund (mean score of 1.4).

The respondents were also asked whether the above named factors existed in Mauritius. According to the survey, 74 per cent of the respondent agrees that free labour movement is present in Mauritius, 52 per cent for efficient financial reporting, 92 per cent for government incentives and 60 per cent for progressive economic variables. The use of international accounting standards and the setting-up of the Empowerment Fund by the government may explain the facts observed from the survey. However, many of the firms surveyed are not sure about the existence of IPOs (56 per cent). One possible explanation is the fact that the Stock Exchange of Mauritius is small and has a low liquidity. In addition, the rigid listing rules may deter many small firms from joining the stock market. The cost of listing to raise small amount of funds is high. In addition, the increasing pressure for

continuous disclosure places great pressure on small firms. This may explain why SMEs are not raising capital from the stock market. However, the creation of the Development and Enterprise Market this year will make it easier for small and medium firms to get listed on the market. The listing rules are more flexible.

Hypothesis Testing

Several hypotheses were formulated and tested. The data analyzed was not normal. Chi-square was used to determine the relationship between variables. The hypotheses pertain to the awareness and use of venture capital financing in Mauritius, and factors affecting the setting-up of venture capital fund and the use of venture capital financing.

Table 3: Hypotheses Tested

	Hypotheses	Outcomes
1.	H ₀₁ : Correct definition of venture capital fund depends on awareness. H ₁₁ : Correct definition of venture capital fund does not depend on awareness.	Reject H ₀ (0.000)
2.	H ₀₂ : Those who are aware of the existence of venture capital fund in Mauritius have used it as a mean of finance. H ₁₂ : Those who are aware of the existence of venture capital fund in Mauritius have not used it as a mean of finance.	Do not Reject H ₀ (0.149)
3.	H ₀₃ : There is a relationship between free labour movement and the use of venture capital fund H ₁₃ : There is no relationship between free labour movement and the use of venture capital fund	Reject H ₀ (0.000)
4.	H ₀₄ : There is a relationship between efficient financial reporting standards and the use of venture capital fund. H ₁₄ : There is no relationship between efficient financial reporting standards and the use of venture capital fund.	Do not Reject H ₀ (0.385)
5.	H ₀₅ : There is a relationship between initial public offering and the use of venture capital fund. H ₁₅ : There is no relationship between initial public offering and the use of venture capital fund.	Do not Reject H ₀ (0.572)
6.	H ₀₆ : There is a relationship between government incentives and the use of venture capital fund. H ₁₆ : There is no relationship between government incentives and the use of venture capital fund.	Do not Reject H ₀ (0.451)
7.	H ₀₇ : There is a relationship between progressive macroeconomic variables and the use of venture capital fund. H ₁₇ : There is no relationship between progressive macroeconomic variables and the use of venture capital fund.	Do not Reject H ₀ (0.199)

As expected, there was no relation between awareness and the correct definition of the venture capital fund. However, those who were aware of the existence of venture capital fund did use it as a source of financing. This may explain the reason why government has created the Empowerment Fund and it has launched an extensive awareness campaign at national level. The Registrar of Companies had registered about 3000 new firms during October and November 2006. One of the criteria of the Empowerment Fund was that the business unit has to be formal and registered. Those new firms were mostly informal businesses that wanted to benefit from the Empowerment Fund.

It can be observed from Table 3 that there is a relationship between factors such as efficient financial reporting, government policy, IPOs and progressive macroeconomic variables and the use of venture capital funds. The strength of the relation of the factors considered and the use of venture capital was assessed using Cramer's V. Government incentives and efficient financial reporting practices have a strong relationship with the use of venture capital financing (Cramer's V 0.852 and 0.717 respectively). However, the relationship was moderate for IPOs and macroeconomic variables (0.494 and 0.371 respectively). Freedom of labour movement had no impact on the use of venture capital financing.

Discussion

The government has already outlined its future policy in making SMEs the growth engine of the economy. Consultancy reports had depicted the main weaknesses of SMEs in Mauritius, namely lack of managerial skills, poor marketing skills, poor knowledge of technical know-how and lack of adequate financing. SEHDA in collaboration with the University of Mauritius is providing adequate training to potential and existing entrepreneurs. The government has introduced the Technology Diffusion Scheme whereby it finances up to 50 per cent of the cost of adopting new technologies. With the setting-up of the Equity Participation Scheme and the Mutual Guarantee Scheme, the government is also trying to tackle the financing problem of the SMEs. However, more energy has to be devoted to the popularization of the venture capital fund (or equity participation scheme).

A national awareness campaign on equity participation will provide financing solutions to many firms and start-ups that would otherwise never be set up or grow. Once the information on the possibility of having a venture capitalist in one's capital,

on the procedures to be followed and the support of the government is disseminated among existing and potential entrepreneurs, SMEs will grow in size and dimension.

It is high time to encourage institutions like the National Pension Funds and insurance companies to participate in national equity participation schemes. This would boost potential investors' confidence. Moreover, venture capital firms in Mauritius are structured in the form of a company or trust. They are required to follow a three-tier mechanism: investors in the fund, the company (the venture capital firm) and the venture (the entrepreneur). It can be argued that the adoption of a new legal framework and tax-efficient vehicle in the form of "Limited Liability Partnership Act" may help to increase the number of venture capital firms in Mauritius. This type of framework is popular in the USA. Investors' liability towards the fund is limited to the extent of their contribution in the fund. In addition, the formalities in structuring the fund are simpler.

There is also a need to establish a proper exit mechanism. Some potential entrepreneurs view the venture capitalists as "vulture" capitalists. They feel that the venture capitalists would retain control of their business or that they would not let them pass their business onto their family. Once a proper exit mechanism has been established, SMEs, especially family owned, will have more confidence in venture capital financing.

Conclusion

SMEs have an important role to play in creating jobs, fostering creativity and transforming innovative ideas into business propositions. However, they do suffer from lack of sound managerial and marketing skills and lack of adequate finance. Traditional sources of finance have failed to boost the SMEs in Mauritius. Venture capital financing can be considered as an alternative finance that will solve both the poor managerial skills and lack of capital of SMEs. However, it was observed that many SMEs are not aware of the existence of venture capital finance in Mauritius. In addition, there is a widespread misconception that venture capital fund is expensive and the entrepreneur may lose his control in the firm. Important factors like government policy, good accounting standards, IPOs (with the creation of the Development and Enterprise Market) and progressive macroeconomic variables are all present in Mauritius. What is really needed now is an extensive awareness campaign that will convince the SMEs to use such type of financing.

Keywords: SMEs, Venture Capital Funds, Small Island Economies, Economic Growth.

Notes

- 1 Central Statistical Office, Mauritius.
- 2 May 2005.
- 3 Hellmann and Puri (2000, 2002), Kortum and Lerner (2000).
- 4 Bottazzi, Da Rin and Hellmann (2004), Gompers (1995), Hellmann and Puri (2002), Lerner (1994, 1995), and Lindsey (2003).
- 5 European Venture Capital Association, www.evca.com.
- 6 Bottazzi and Da Rin (2002), European Commission (2003).

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Measuring Efficiency: Data Envelopment Analysis

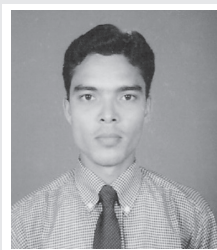
Rohita Kumar Mishra



The relative efficiencies of government hospitals in Sambalpur district are measured by applying a non-parametric production frontier approach, popularly known as Data Envelopment Analysis (DEA). The approach provides management with information regarding the relatively best practices hospitals in the observation set and locates the relatively inefficient hospitals comparing with the best practice. The paper also focuses the usefulness of DEA information to the hospital for improving their operating efficiency.

The increasing trend in health spending has compelled government of many developing countries to focus on the issue of assessment and improvement of hospital efficiency. The central government and state government are also under increasing pressure to improve the efficiency of health care delivery system. The scarcity of resources coupled with structural reform program has forced policy maker to search for alternative ways of achieving maximum output with the given resources. One approach towards this end has been to examine the performance status of public hospitals on the basis of which policy decisions can be taken in future. This paper attempts to examine the relative performance of public hospitals of Sambalpur district.

The efficiency of hospitals has traditionally been measured by means of ratio analysis and econometric methods on the basis of which production function are estimated. DEA has been used to estimate



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the relative efficiency of hospitals. Borden (1990) assesses the impact of DRG (Diagnostic Related Groups). Chilingierian (1995) presents an empirical illustration of the use of DEA to analyze the efficiency of American physician and to identify the key factors associated with the efficient use of clinical resources in the provision of hospital services. Mckillop et.al (1999) uses DEA to examine the technical scale and size efficiency of larger and smaller acute hospitals in Northern Ireland over the six-year period. Shammari (1999) estimates the productivity efficiency of Ministry of

Health hospital in Jordan by multi criteria DEA. Bhatt et.al (2001) attempt to provide an overview of general status of health care services provided by hospitals in the state of Gujarat in India in term of their technical and allocative efficiency using DEA technique. Giokas (2001) applies two different efficiency estimation technique, viz., DEA and ordinary least square method. Chang et.al (2004) apply DEA to evaluate the National Health Insurance (NHI) programme on the operating efficiency of district hospital in Taiwan. This overview of literature reveals that there is no dearth of this study. However studies of Indian Health care system of course scant. This paper estimates the relative efficiencies of public hospitals of Sambalpur district and also suggests policy interventions for improving the performance of healthcare infrastructure of the district.

Methodology

In this paper hospital efficiency is evaluated by using non-parametric linear programming technique known as DEA. DEA was initiated by Charnes, Cooper and Rhodes (1978). The DEA model known as CCR is used to measure and explain over all technical efficiency and scale efficiency. Banker, Charnes, Cooper (1984) developed a second DEA model, which is known as BCC model. The model is used to separate overall technical efficiency from scale efficiency.

Data And Variables

For the study of government hospitals we have selected 18 hospitals. Data for the study are collected from Public Health Centers (PHC) and hospitals of district headquarters. The inputs namely number of beds, number of doctors, number of paramedical staff, number of non medical staff, expenditure, and three outputs, viz., number of indoor patients, number of outdoor patients, and number of operations performed are considered to evaluate the relative efficiencies of hospital of the sample set. Descriptive statistics of these inputs and outputs are shown in Table-1. After the data collection, it is observed that 85 doctors and 418 paramedical staff, 215 non-medical staffs are treating 84157 outdoor patients and 126887 indoor patients and 90610 operations are performed with the use of 439 beds in 18 hospitals of Sambalpur district. The total expenditure incurred for this purpose is 634.821 lakhs.

In this study, to measure the overall technical efficiency of the hospitals, CCR input oriented model is applied to identify the inefficiencies in the usage of the various input resources of the hospital under study. To decompose the over all technical efficiency BCC input model is also applied.

Defining Inputs and Outputs Factor

DEA model cannot avoid the problem of selecting inputs and outputs. Clearly any resources used by a unit should be included as input. A unit will convert resources to produce outputs so that the outputs should include the amount of products or services produced by the unit. Hence outputs may include a range of performance and activity measures. In addition, environmental factors, which may affect the production of these outputs, must be identified in the assessment model.

The number of factors selected (inputs and outputs) need to be small compared to total number of DMUs that is the number of DMUs should be greater than or equal to three times of total number of inputs and outputs (Banker et. Al 1984). For the problem the following inputs and outputs are defined.

Inputs

Number of beds	= X_1
Number of doctors	= X_2
Number of paramedical staffs	= X_3
Number of Non medical staff	= X_4
Expenditure incurred	= X_5

Outputs

Number of indoor patients	= Y_1
Number of outdoor patients	= Y_2
Number of operations performed	= Y_3

Orientation to DEA

DEA offers three possible orientations in efficiency analysis Charnes (1994):

- (a) Input oriented models are models where DMUs are deemed to produce a given amount of output with the smallest possible amount of input.
- (b) Output oriented models are models where DMUs are deemed to produce the highest possible amount of output with the given amount of input.
- (c) Base oriented models are models where DMUs are deemed to produce the optimal mix of output.

Return to Scale

Return to scale refers to increasing or decreasing efficiency base on size. For example a manufacturer can achieve certain economies of scale by producing thousand circuit boards at a time because of shortage problems and limitations on the worldwide copper supply. This range of production illustrates Decreasing Return to Scale (DRS). Combining the extreme two ranges would necessitate Variable Returns to Scale (VRS). Constant Return to Scale (CRS) means that the producers are able to linearly scale the inputs and outputs without increasing or decreasing efficiency. The assumption of CRS may be valid over limited ranges but its use must be justified. CRS efficiency score will never be higher than VRS efficiency scores.

In a CRS model, the input oriented efficiency score is exactly equal to the inverse of the output-oriented efficiency score. This is not necessarily true for inefficient DMUs in the case of other return to scale assumptions. The CRS version is more restrictive than VRS and yields usually to less number of efficient units and also lower efficiency score among all DMUs.

In DEA literature the CRS model is typically referred to as the CCR model after the organizations of the seminal publication by Charnes, Cooper and Rhodes (1978). Similarly, the VRS model is referred to as the BCC model after Banker, Charnes, and Cooper (1984).

Model for DEA

Consider the DEA model for “n” DMUs with “m” inputs and “s” outputs proposed by Charnes et.al. (1978). The relative efficiency score of p_{th} DMUs is given by

$$\begin{aligned}
 \text{Max } z_p &= \frac{\sum_{k=1}^s v_k y_{kp}}{\sum_{j=1}^m u_j x_{jp}} \\
 \text{s.t. } &\frac{\sum_{k=1}^s v_k y_{ki}}{\sum_{j=1}^m u_j x_{ji}} \leq 1 \quad \forall i \\
 &v_k, u_j \geq 0 \quad \forall k, j
 \end{aligned}$$

- Where, $k = 1$ to s (no. of outputs)
- $j = 1$ to m (no. of inputs)
- $i = 1$ to n (no. of DMUs)
- y_{ki} = amount of output k produced by DMU i
- x_{ji} = amount of input j utilized by DMU i
- v_k = weight given to output k
- u_j = weight given to input j

The fractional program (1) can be simplified as the following linear programming problem.

$$\begin{aligned}
 \text{Max } z_p &= \sum_{k=1}^s v_k y_{kp} \\
 \text{s.t. } &\sum_{j=1}^m u_j x_{jp} = 1 \\
 &\sum_{k=1}^s v_k y_{ki} - \sum_{j=1}^m u_j x_{ji} \leq 0 \quad \forall i \\
 &v_k, u_j \geq 0 \quad \forall k, j
 \end{aligned}$$

The above LPP (2) is to run n times for each DMU to get the relative efficiency.

The objective function has been linearized recognizing that in maximizing a ratio, the relative magnitude of the numerator and the denominator are important and not their actual values. Thus, in the above model the denominator has been set equal to a constant and the numerator is being maximized.

Table-1: Data of Inputs and Outputs

	INPUTS					OUTPUTS		
	X ₁	X ₂	X ₃	X ₄	X ₅ (in lakhs)	Y ₁ (in 000)	Y ₂ (in 000)	Y ₃ (in 000)
Min.	6	1	3	3	6.12	5.64	.042	0.02
Max.	35	36	75	61	172.5	326	84.718	74.7
Mean	24.38	24.388	23.222	11.944	35.267	46.753	7.049	5.033
S.D	38.136	38.136	18.348	12.990	37.548	74.747	19.710	17.428
Sum	439	85	418	215	634.82	841.57	126.887	90.61

Table-2: Correlation Matrix

	X ₁	X ₂	X ₃	X ₄	X ₅	Y ₁	Y ₂	Y ₃
X ₁	1	.982	.633	.962	.913	.928	.980	.966
X ₂		1	.645	.976	.933	.962	.985	.963
X ₃			1	.752	.850	.720	.677	.701
X ₄				1	.962	.960	.977	.952
X ₅					1	.941	.924	.923
Y ₁						1	.959	.937
Y ₂							1	.987
Y ₃								1

It is interesting to know that more than average degree of correlation among all the parameters (Table-2). This indicates some degree of biasness in the data as the calculated value of correlation indicates that hospitals are performing at the same level in all the parameters, which may not be possible in all the cases. The highest value of correlation is 0.987 between Y₂ and Y₃ i.e. between number of

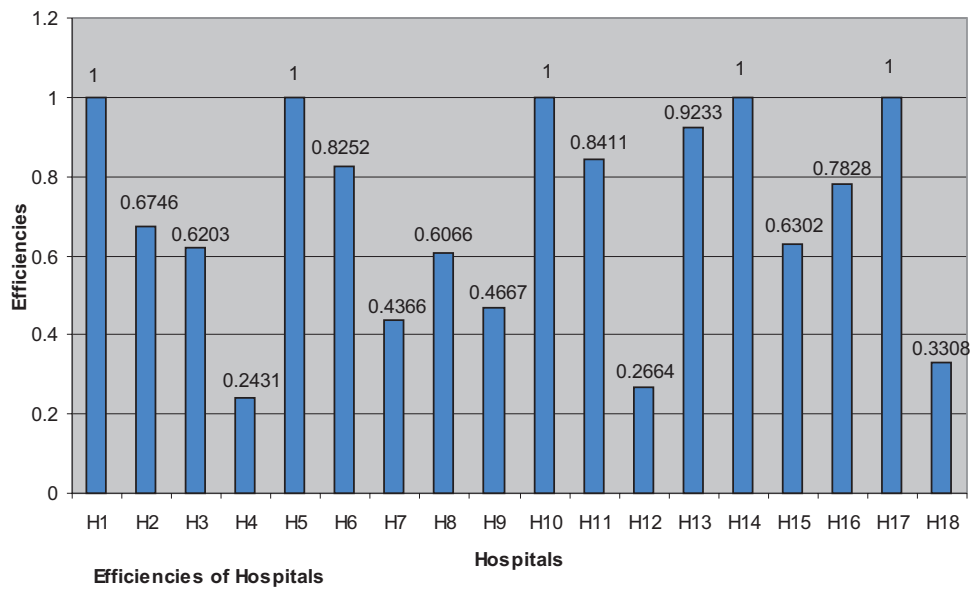
outdoor patient and number of operations performed, which is obvious. The next higher value is 0.980 between X₁ and Y₂ i.e between number of beds and outdoor patients.

The LPP (2) has been run 18 times over the data of Table-1 and the score with benchmarking are presented in Table-3 and the distribution of efficiencies are given in Figure-1.

Table-3: Benchmarking with Peer weights resulting from CCR input model

Hospital No.	Score	Benchmark (Peer Weights)	Peer Count	Efficiency
H ₁	big		7	1
H ₂	100%		2	0.6746
H ₃	81.61%	1(0.05), 17(0.95)		0.6203
H ₄	81.21%	1(0.00), 2(0.11), 17(0.89)		0.2431
H ₅	139.27%		2	1
H ₆	82.69%	1(0.10), 5(0.12), 14(0.06), 17(0.71)		0.8252
H ₇	56.19%	1(0.01), 10(0.04), 14(0.06), 17(0.39)		0.4366
H ₈	99.13%	1(0.06), 2(0.06), 17(0.07), 18(0.82)		0.6066
H ₉	47.03%	1(0.01), 5(0.01), 17(0.98)		0.4667
H ₁₀	151.79%		2	1
H ₁₁	102.77%		2	0.8411
H ₁₂	38.55%	1(0.00), 10(0.20), 17(0.80)		0.2664
H ₁₃	147.47%		0	0.9233
H ₁₄	540.94%		2	1
H ₁₅	128.22%		0	0.6302
H ₁₆	110.73%		0	0.7828
H ₁₇	214.86%		8	1
H ₁₈	154.24%		3	0.3308
Mean	133.887			0.702

Figure- I: Distribution of Efficiency Score



As mentioned above five hospitals are best performers as they have the maximum efficiency score i.e. 100 per cent. The lowest efficiency score is 0.2431 per cent for hospital H_4 . The efficiency score of three hospitals are falling in the range from 80 to 100 per cent so they may be reduced their input up to 20 per cent while maintaining the same output level if they want to operate as the best practice hospitals. Five hospitals are falling in the range of 60 to 80 per cent. Two hospitals are in the range of 40 to 50 per cent and three hospitals are under 20 to 40 per cent. The average efficiency scores work out to be 0.702, which reveals that an average hospital can reduce its resources by 28.8 per cent to obtain the existing level of outputs for becoming the best practice hospital. Out of thirteen relatively inefficient hospitals, nine hospitals have an efficiency score lower than the average efficiency score and only four hospitals have efficiency score higher than the average efficiency score. It shows that fifty percent hospitals of the sample set are operating at below average level. The model also identifies the reference set for inefficient hospitals that can be used in benchmark for improvement. Table 3 presents the reference sets with peer weights of every inefficient hospital so that they can become relatively efficient hospitals

Discussions And Conclusions

The paper presents application of DEA to determine relative efficiencies of government hospitals. Five hospitals namely H_1 , H_5 , H_{10} , H_{14} and H_{17} are efficient. The lowest efficiency of the hospital is 0.2431 i.e. H_4 . So to become efficient it should refer hospital H_{17} (89 per cent) and hospital H_2 (11 per cent). The next lowest score is attained by hospital H_{12} i.e. 0.2664. To become efficient it should refer hospital H_{10} (20 per cent)

and hospital H_{17} (80 per cent) and so on. The average efficiency score of hospital is 0.702. Four hospitals have more than average efficiency. So hospitals have to build up themselves by referring the peers.

The result will be more interesting if the data of private hospitals, nursing homes and similar other institutes are taken into account.

Key words: DEA, Efficiency, Hospital.

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Entrepreneurial Ethics And Issues

Ramanaiah G.



Ethical behaviour in organizations encompasses a wide gamut of issues. There is wide spread use of bribes, price fixing (even match fixing), sexual discrimination and harassment. Ethics is the buzzword of the 1990s. Ethics however is not new and it has been with us for thousands of years. Be it Vedas, Puranaas, Ramayana, Geeta or ever the religious books of other religious like Bible, and Koran etc. all are full of moral values and ethical code of conduct. Entrepreneurship is one of the great social and economic forces of our time; economists have concluded it is the single causative factor for economic growth and development. There are certain issues in following ethics in business, which are related to objectives of business, employees, national interest etc. Entrepreneurs in their operations generally get ethical dilemmas as to whether to do this or that. But they should follow ethics in business without compromise so that they can credibility, retain employees, and increase profitability in the long run.

Of late, India has become a land of scandals and scams; just as a businessman is known by the number of bankruptcies he has declared, a politician is perhaps known by the number of scams he is involved. Businessmen in India have traditionally have been known to be exploitative and involved in black marketing and related practices in the license permit raj prevalent in India. The bureaucracy and the politicians wanted a share of the booty.

Ethical behaviour in organizations encompasses a wide gamut of issues. There is wide spread use of bribes, price fixing (even match fixing) sexual disc rim harassment even in academic

institutions like University of Delhi – Child abuse, discrimination in pay and promotions, infringement of rights to privacy – phone tapping, dictating personal life styles of employees and other illegal activities.



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Ethics is the buzzword of the 1990s. Some think it is a fad and many take it seriously. Ethics however is not new and it has been with us for thousands of years, except that its importance is dawning on us only now our ancient literature is full of ethical and moral preaching. Be it Vedas, Puranaas, Ramayana, Geeta or ever the religious books of other religions like Bible, and Koran etc. all are full of moral values and ethical code of conduct.

Entrepreneurship is one of the great social and economic forces of our time; economists have concluded it is the single causative factor for economic growth and development. Entrepreneurs are driven by their vision, ambitions and goals. The vision ambitions and goals of the entrepreneur depend on the social, cultural and psychological aspects. It is only with that correct mix of these aspects that successful entrepreneurship is possible.

The word ethics is derived from the Greek word 'ethos; which refers to character. Webster's New Collegiate Dictionary defines ethics as the science of moral duty or the science of ideal human character. In other words, moral principles, codes and postulates are considered as ethics.

Gene Burton and Manob Thakur say ethics reside within individuals and that organizations don't have ethics, only people have ethics. Ethics of individual depend on one's own personal attitude and belief concerning what is right or wrong, good or bad. Generally a person's ethics are formulated through the operation of the following key forces in the individual's environment.

1. Family influences
2. Influences
3. Experiences
4. One's own values and morals
5. Situational factors

Since, the influence of quality of these forces differ from person to person, the ethics, of individuals also differ from person to person. What may be ethical behaviour in the eyes of another? What is right or wrong is a personal individual matter, which is a however influenced society-accepted norm.

Ethics and Morals

The words 'Ethics' and 'Morals' are used synonymously, but neither is consistently employed. Generally ethics refers to high standards of professional conduct, while ethics are grounded in moral standards. Morals can refer to any generally accepted customs of conduct and right living in society.

Business Ethics

Business ethics are the principles, practices and philosophies that guide the business people in their day-to-day business decisions. It related to the behaviour of a business of a businessman in a business situation and concerned primarily with the impacts of decision of the society, within and outside business organization.

Issues in Business Ethics

In the past ethical issues were set by the law. But since the beginning of 20th century religious institutions and the Government find it difficult to understand the changing complexities of business. So they left ethical issues to the business itself. Business started developing its moral philosophy keeping in view state policies, rules, regulations and social needs. Some of the important issues in business ethics are stated below:

1. Issues Relating to Objectives of Business

The social, human, and national objectives must be set on the grounds of business of ethics. As a result of this businessman states that he aims at earning a reasonable profit and not profit. But in reality he undertakes various unfair trade practices like hoarding of goods, black marketing, speculation etc.

2. Issues Relating to Consumer

The businessman has to supply goods of good quality with reasonable prices, correct weights and measures, safety and purity. But in reality businessman exploits the consumers by duplication of products, incorrect weights and measures, false labeling and by misleading advertisement etc.

3. Issues Relation to Employees

Ethical standards must be applied in the like appointments, transfers, promotions, working conditions, wage and salaries etc. But in reality businessman exploits the workers by paying less wages and salaries against what is payable under rules, long-working hours without additional benefit, refusing permission for starting trade unions etc.

4. Issues Relating to Government

The important issues, which need ethical consideration, are proper books of accounts, implementing Government policies etc. But in reality false income returns and statements are presented before the concerned authorities for the purpose of evading taxes, donations to political parties to get licenses giving bribe to government officials.

5. Issues Relating to National Interest

The business should give top priority to distribution of economic power; export policy matter and national security and reputation. But in reality some businessman violates the export policies and maintains illegal relationships with enemy countries by supplying information relating to security of the country.

6. Issue Relating to Competition

The ethical consideration states that the unhealthy or unnecessary competition should be created and one would not solidify the customers, dealers of competitive business intimation. In reality business concerns not only create cut that competition but also solicit the consumers and dealers of other business concerns.

Entrepreneurial Ethics

Ethics related to an entrepreneur are known as entrepreneurial ethics. An entrepreneur has to be honest and straightforward with other also treating in the some manner in which he wished to be treated.

- ∅ Fair while dealing with peers and subordinates
- ∅ Never discriminate by dispensing special favours or privileges
- ∅ Information received should not be used or revealed to the disadvantage of any subordinate or worker.
- ∅ Should ensure his subordinates right to privacy.

Reasons

Entrepreneurial ethics are necessary because of the following reasons.

I. Ethics Create Credibility

- ∅ When the entrepreneur follows ethics, they will create credibility in the minds of public and he is honoured in society.
- ∅ Demand for his product increases.

- ∅ Public issues attract an immediate response

2. Close Relationship with Employees

When he builds and gets credit for ethical behaviour with the public.

- ∅ The leadership and the employees come and work together
- ∅ Leads to closer relationship
- ∅ Effective functioning of organization.

3. Increases Profits

When the entrepreneur adopts values, his -

- ∅ Products will have value in the eyes of customers.
- ∅ Profits increase as sales increase.
- ∅ Long-run success for value-oriented companies

4. Protect Pollution

When he is ethically-oriented he

- ∅ Can protect society by way of prevention pollution
- ∅ Protect the health of his workers.

Is Entrepreneur to be Ethical?

Yes. He has to be ethical. The reasons are:

- a. In order to safety expectations of public
- b. To prevent harming employees and public in general, with regard to pollution. A polluting industry can lose its market if fails to develop a more environmentally sound approach. There are a large number of industries in India that find it cheaper to produce pollution and dump it rather than investment in pollution control measures. They find it easier to bribe the pollutants control board staff and obtain clearance then to install modern machinery. An entrepreneur who is careless in disposing of toxic chemical works that cause disease and death, if he adheres to either principles of conduct, he can definitely do good to the society.
- c. To improve relations with employees so as to enable them increase productivity. He imparts or builds a sense of trust amongst his employees, partners and the firm and the general public.

- d. To protect business itself from unethical competitors or even from own employees. Sometimes not only the customers but also the employees steal the products from stores.
- e. To reap rewards like high morale and improved productivity he has to be ethical in treating them with dignity.

Can you afford to be Ethical?

During their start up days, many Inc.500 CEOs tell half-truths to win over customers, while others tell outright lies.

- When your company goes broke, should you pay people back even if bankruptcy laws could protect you?
- Should you skip a creditors' bill in a cash flow crisis?
- Should you help an alcoholic employee get on the wagon?
- Do you stretch the truth to win an important client?
- Can you grow a small, bootstrapped company into a success without lying?

Building a business means facing all kinds of ethical decision. For all the above questions, these are largely clear-cut answers, and following your conscience can often have unfavourable consequences of your business.

One of the best ways to deal with the complex decisions you make is to learn from those who have been there before you.

Small Company vs. Big Company

In some ways, it is easier for larger companies, to be ethical, because they have more resources. If they are going to spend a tenth of one per cent of their resources on philanthropy or environmental management, that can be a substantial amount of money. That can be an office with several employees and a budget. Who focus on nothing else? They can say, "We are going to cut air pollution from our company 50 per cent in five years" and they have sophistication and the tools to measure it.

It is highly difficult for a small company to do something like that when you are struggling to just meet payroll and when you are

struggling a lot to get your product out of the door. But we can't give free pass to small companies. They have to follow the environmental laws and protect it.

Is Entrepreneur in Dilemma?

Many a times an entrepreneur feels it is very difficult to decide what is right and what is wrong for instance:

- When an executive of a competitor's firm wishes to join and tells about his present employer's plans for future
- When an entrepreneur wants to change his product package and writes that it is a new and improved one.
- When he wants to get a big order for supply of raw material from the purchase manager of another company who is corrupted, whether to offer bribe for that or lose that order.

Entrepreneurial Ethical Problems - Solutions

As an entrepreneur, he has to encounter ethical problems in many forms very frequently. When he finds any ethical problem, first of all, he has to find what is responsible for it, is a major step to minimize its impact on business operations, its reputation and on the people.

- if he considers in any situation his self interest is more than that of society's interest he will become, selfish and egoistic man. This he can overcome when he clearly understands the reality that his products are for the well being of people. This is a conflict between entrepreneurial interest and society's interest.
- In case of severe competition amongst business firms; he has to adapt himself like a true entrepreneur knowing that his firm's interest is more than other's interest.
- In respect of any contradictions regarding cultural aspects he has to discourage foreign culture and give more weightage for cultural traditions and values.

Conclusion

For successful implementation of entrepreneurial and business ethics there should be an environment, which is ethical where the society itself is ethically oriented.

Ethical values have to be nurtured right from childhood. The entrepreneur will succeed in his every endeavour when he follows eternal and moral standards consisting of personal values and strict code of conduct based on them, which is the need of the hour for our country.

Key words: Entrepreneurial Ethics, Morals, Values, Credibility, and Entrepreneurship.

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Security Challenge And E-Commerce



Pon. Ramalingam and Upaulthus Selvaraj

The advent of the electronic commerce ushered in a new period pervaded by a sense of boundless excitement and opportunities. Although it took some time, most organizations either utilize the Internet for business purposes already or intend doing so in the very near future. Electronic commerce, also referred to as "e-commerce," has revolutionised the modern-day business world. Thanks to its concomitant technologies, new business opportunities have been created that could mean the survival or downfall of many organizations on the global economic playing-field, depending on whether they chose to seize or fail to avail themselves of these opportunities. Finally, not sheer size, but the ability rapidly to adapt itself to new circumstances will decide the fate of a business. The said new opportunities, however, come with their own set of problems. The major concern cited by most decision-makers when it comes to e-commerce is security, or rather the lack thereof. For this reason, many Internet subscribers still feel uncomfortable about the idea of trading over the Internet. To them, the possible risks to be incurred do not justify the potential rewards. Unfortunately, their fears are not completely unfounded.

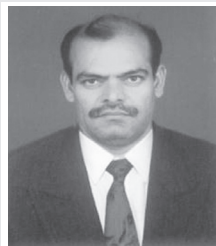
Computer Security

In the early days of the Internet, electronic mail was one of its most popular uses. Despite e-mail's popularity, people have often worried that a business rival might intercept e-mail messages for competitive gain. Another fear was that their supervisors, with negative repercussions, might read employees' non-business correspondence. These were significant and realistic concerns.

Today, the stakes are much higher. The consequences of a competitor having unauthorized access to messages and digital intelligence are now far more serious than in the past. Electronic commerce, in particular, makes security a concern for all users. A typical worry of web shoppers is that their credit

card numbers will be exposed to millions of people as the information travels across the Internet. A 2001 survey found that more than 90 per cent of all Internet users have at least "some concern" about the security of their credit card numbers in electronic commerce transactions. This echoes the fear shoppers have expressed for many years about credit card purchases over the phone.

Consumers are now more comfortable giving their credit card numbers and other information over the phone, but many of those same people fear providing that same information on a web site. People are concerned about personal information they provide to companies over the Internet. Increasingly, people doubt that these companies have the willingness and the ability to keep customers' personal



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information confidential. This examines the board topic of computer security in the context of electronic commerce, presenting an overview of important security issues and current solutions.

Computer security is the protection of assets from unauthorized access, use alteration, or destruction. There are two general types of security: physical and logical. Physical security includes tangible protection devices, such as alarms, guards, fireproof doors, security fences, safes or vaults, and bomb-proof buildings. Protection of assets using non-physical means is called logical security. Any act or object that poses a danger to computer assets is known as a threat.

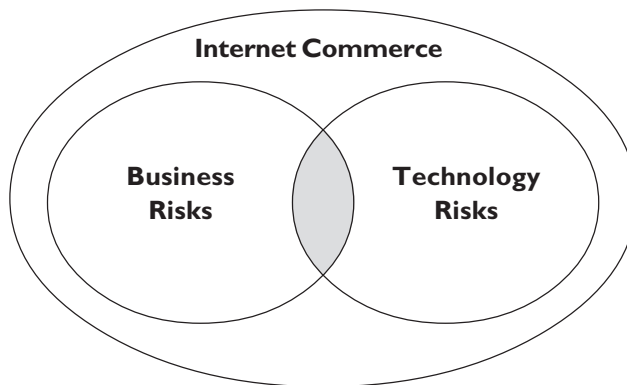
Computer Security Classifications

Computer security is generally classified into three categories: security, integrity, and necessity (also known as denial of service). Secrecy refers to protecting against unauthorized data disclosure and ensuring the authenticity of the data source. Integrity refers to preventing unauthorized data modification. Necessity refers to preventing data delays or denials (removal). Secrecy is the best known of the computer security categories. Every month, newspapers report on break – ins to government computers or theft and use of stolen credit card numbers that are used to order goods and services. Integrity threats are reported less frequently and, thus, may be less familiar to the public. For example, an integrity violation occurs when an Internet e-mail message is intercepted and its contents are changed before it is forwarded to its original destination. In this type of integrity violation, which is called a man-in-the-middle exploit, the contents of the e-mail are often changed in a way that negates the message’s original meaning. Necessary violations take several forms, and they occur frequently. Delaying a message or completely destroying it can have grave consequences. Suppose that a message sent at 10:00 a.m. to an online stockbroker includes an order to purchase 1000 shares of IBM at market. If the stockbroker does not receive the message (because an enemy delays it) until 2:30 p.m. and IBM’s stock price has increased by \$3, the trade loses \$3000.

Risks in E-Commerce

Trading over the Internet could incur both business and technology risks. Many of these risks overlap, however, with the result that they cannot be categorized as either business or purely technology risks. The figure below represents the e-commerce environment of the Internet and its concomitant business, technology and business/technology risks.

The E-Commerce Environment of the Internet



Business Risks

The business world is becoming even more reliant on technology. Most organizations are, already, heavily dependent on information systems for the smooth performance of their business functions. In many cases, these systems are either isolated from the outside world or limited as to their interaction with outsiders. Each system is, however, still under the control of its organization. By opening up their doors in order to get connected and by using the Internet for business purposes, organizations become even more dependent on technology, while at the same time exerting less and less control over it.

The dizzying pace at which changes are worked in the business and technology environments, in future, organizations will not be judged by their size, but rather by how quickly they could adapt and meet new scenarios and demands. Changes need to be wrought quickly at both an organizational and a technical level for organizations to seize each opportunity. For many organizations, time-to-market will be the only measure of success.

Change, however, invariably brings with it vulnerabilities that could easily be exploited by opportunists. It is important, therefore, to minimize such vulnerabilities when a change is being brought, so that the anticipated outcome could not be affected.

Information technology-related crimes are on the increase across the globe.

The statistics on Information technology-related crime clearly show a sharp increase in the number as well as in the size of these crimes. The popular media are teeming with articles and reports on cases where organizations have been defrauded through the means of technology. Even organized-crime syndicates seem to be excited about the vast potential of the Internet.

As soon as a new business opportunity has been created for organizations, criminals seem to uncover a new opportunity, too. By using information technology, criminals' risk of being caught is significantly reduced, as no physical presence is required and evidence is hard to collect. In addition to the lack of legislation in this realm and the removal of physical borders between countries, information technology-related crimes seem to have special appeal, as their perpetrators incur very little risk.

There is a serious shortage of information-security professionals in all the countries.

Most organizations acknowledge that security, be it physical or logical, is of the utmost importance. Most physical security devices, such as locks and burglar bars, have, for example, been around for many years. Physical security, however, constitutes a relatively simple discipline, as most forms of attack launched in this realm are known.

The Internet, on the other hand, presents a relatively new and unknown domain, for which security is still in its infancy. Although good progress has been made with the design and development of secure technologies, there still is a need for a knowledgeable person to implement and maintain these technologies. At present, however, there is a serious shortage of such expert information-security professionals who could assist in securing the Internet.

Responsibility/liability for risks incurred on the Internet cannot be fixed easily on any individual/organization. No one could, therefore, lay claim to for any security related issue, which is the status quo preferred by most people anyway. This "non-ownership," however, poses a problem in that no one is assuming the responsibility of meeting the long-felt needs of the Internet community. In addition, no one is accountable for any problems that may arise on the Internet. For all practical purposes, the Internet comes with a "use at your own risk" label.

This lack of ownership means that organizations that do make use

of the Internet must be prepared to take full responsibility for the consequences in doing so. When looking at the four conventional risk-management actions, namely accept, avoid, transfer, and manage, it is evident, however, that the risk is too high merely to accept, especially since billions of dollars are already being traded over the Internet. Avoiding the risks associated with such a booming business would invariably bring about lost opportunities. In most cases, it would also not be possible to transfer the risk, as there are but a few Internet commerce-insurance underwriters. The only way effectively to address these risks, therefore, is to manage them.

Technology Risks

Business risks, however, are not the only risks to be considered. Internet subscribers could incur a host of technology risks. The Internet comprises a global technology used to link millions of computers and even more people. It would be impossible to try and map out the Internet in terms of hardware being used, however, as it is an ever-changing technology. The Internet, therefore, constitutes a very dynamic environment. This dynamic nature of the Internet is the very salient feature that makes it so difficult to secure. Any attempt to secure the Internet could be compared to sailing across any of our seven oceans. The sheer magnitude of an ocean makes it virtually impossible to guarantee the safe passage of any ship. In addition, many other factors influence the ocean, which are, for the most, not controllable by man. The same applies to the Internet, as organizations have no control over what happens on the Internet outside their perimeters.

The principal aim of the Internet was to assist people in sharing and disseminating information. Unfortunately, not all the information thus shared and disseminated is for the good or in the public interest. The Internet gives ready access to information and tools that could be used to attack or cause damage to other people's information. The ready access to and availability of such information and tools have led to many an Internet user being seduced by the lure of power. This also accounts for the large hacker and cracker community assembled on the Internet. Given this large base of potential attackers, the probability of being attacked is, naturally, increased manifold. Coupled with the lure of possible rewards to be gained through such activities, the Internet has become the ideal playing field for unscrupulous individuals or groups to exploit other Internet subscribers.

The technology on which the Internet is based is rather complex in itself. It stands to reason, then, that the technology used to secure

it had to be equally complex, if not more so. As ordinary subscribers often fail to grasp the finer points of the Internet and the measures to secure it, they choose either to ignore the aspect of security or incorrectly to effect these security measures. Exacerbating the problem is the fact that Internet security is, for the most part, intangible, which also precludes many subscribers from understanding it. Implementing secure technologies requires a fair amount of knowledge, skill and expertise and the incorrect implementation thereof could create even more vulnerabilities.

It is even more difficult to try and predict the kinds of attacks that an organization might be exposed to on the Internet. As the Internet technology still is a relatively new technology, not only new uses for it but also new vulnerabilities and weaknesses in it are being discovered on a daily basis. Usually, the hacker and cracker community exploits such new vulnerabilities and weaknesses very quickly. It is, therefore, impossible to think that the Internet activities of any one organization are secure at any point in time.

From the list of risks above, it becomes manifest that the Internet security concerns of most decision-makers are not unfounded.

Security Policy and Integrated Security

Any organization concerned about protecting its electronic commerce assets should have a security policy in place. A security policy is a written statement describing which assets to protect and why they are being protected, who is responsible for that protection, and which behaviours are acceptable and which are not. The policy primarily addresses physical security, network security, access authorizations, virus protection, and disaster recovery. The policy develops over time and is a living document that the company and security officer must review and update at regular intervals.

The first step an organization must take in creating a security policy is to determine which assets to protect from which threats. For example, a company that stores its customers' credit card numbers might decide that those numbers are assets that must be protected from eavesdroppers. Then, the organization must determine who should have access to various parts of the system. Next, the organization determines what resources are available to protect the assets identified. Using the information it has acquired, the organization develops a written security policy. Finally the organization commits resource to building or buying software, hardware, and physical

barriers that implement the security policy. For example, if a security policy disallows any unauthorized access to customer information, including credit card numbers and credit history, then the organization must either create or purchase software that guarantees end-to-end secrecy for electronic commerce customers.

Intellectual Property Threats

Intellectual property threats are a larger problem than they were prior to the wide spread use of the Internet. It is relatively easy to use existing material found on the Internet without the owner's permission. Actual monetary damage resulting from a copyright violation is more difficult to measure than damage can be just as significant.

The Internet presents a particular tempting target for two reasons. First, it is very easy to reproduce an exact copy of anything you find on the Internet, regardless of whether it is subject to copyright restrictions. Second, many people are simply unaware of the copyright restrictions that protect intellectual property. Instances of both unwitting and willful copyright infringements occur because users are ignorant of what they can and cannot copy legally. Most people do not copy a protected work maliciously and post it on the web.

Although copyright laws were enacted before the creation of the Internet, the Internet itself has complicated publishers' enforcement of copyright. Recognizing unauthorized reprinting of written text is relatively easy; determining that a photograph has been borrowed, cropped, or illegally used on a web page is a more difficult task. Cyberquatting, name changing, and name are three problems related to the protection of intellectual property.

Cyberquatting

Considerable controversy has arisen recently about intellectual property rights and Internet domain names. Cyberquatting is the practice of registering a domain name that is the trademark of another person or company in the hopes that the owner will pay huge amounts of money to acquire the URL. In addition, successful Cyberquatters can attract many site visitors and, consequently, charge high advertising rates. A related problem, called **name changing** occurs when someone registers purposely-misspelled variations of well-known domain names. These variants sometimes lure consumers who make typographical errors when entering URL. Name stealing occurs when someone posing as a site's administrator

changes the ownership of the site's assigned domain name to another site and owner.

On November 29, 1999, the U.S. Anticybersquatting Consumer Protection Act (ACPA) was signed into law. Also known as the trademark cyberpiracy prevention act, it protects the trademarked names owned by corporations from being registered as domain names by other parties. Under U.S. law parties found guilty of Cyberquatting can be held liable for damages of up to \$100,000 per trademark. If the registration of the domain name is found to be "willful," damages can be as much as \$300,000. Recent U.S. cases that were settled out of court illustrate the problem. For example, their Cyberquatters made headlines when they tried to sell the URL barrydiller.com for \$10 million. Barry Diller, the CEO of USA Networks sued the trio and won.

Registering a generic name such as wine.com is very different from registering a trademarked name in bad faith – Cyberquatting. Registering a generic name is legal speculation that the name might one day become valuable. Disputes that arise when one person has registered a domain name that is an existing trademark or company name are settled by the World Intellectual Property Organization (WIPO). The WIPO began settling domain name disputes in 1999 under its uniform domain name dispute resolution (UDNR) policy.

One common type of dispute arise when a business has trademark that is a common term, if a person obtains the domain name containing that common term, the owner of the trademark must seek resolution at the WIPO. Gordon summer, who has performed music for more than 20 years as sting, filed a complaint with the WIPO because a Georgia man obtained the domain name www.sting.com and had reportedly offered to sell it to sting for \$25,000. In more than 80 per cent of its cases, the WIPO has held for the trademark name owner; however, in this case, the WIPO noted that the word "sting" was in common and general use and refused to award the domain to the performer. After the WIPO decision, the two parties came to undisclosed terms and the musician's official site is now at www.sting.com.

Many critics have argued that the WIPO UDNR policy has been enforced unevenly and that many of the decisions under the policy have been inconsistent. One problem faced by those who have

used the WIPO resolution service is that the WIPO decisions are not appealed to one authority. Instead, the party seeking redress must file suit in a court with the appropriate jurisdiction. No central authority maintains records of all WIPO decisions and appeals.

Name Changing

After obtaining a domain name, companies still face the possibility that someone will steal unsuspecting customers by registering a domain name that is a slight variation, or even a mis-spelling, of a company's well-known domain name. A simple typo in a web address could lead a web surfer to LLBean.com instead of LLBean.com. The anticybersquatting consumer protection Act now helps distinguish between cases that are true Cyberquatting and those that are permissible competition. Most businesses agree that the practice of name changing is annoying to affected online businesses and confusing to customers. A company's best defense is to register as many variations in product and company spellings as possible. Unfortunately, there is no complete solution to this problem as new high-level domains such as Biz become available, the name-changing problem recurs.

Conclusion

The mere fact that so many good Internet-security technologies and products have been developed already attests to the fact that there is a clamorous and long-felt need for improved security in this domain. The improvement of Internet security would not, however, hinge on better technologies, but rather on the more effective utilization of existing technologies. In order more effectively to utilize existing technologies, it is important first to determine the appropriate application thereof. The only way in which to determine whether or not Internet-security technologies were being applied optimally would be to perform a risk analysis. The results obtained from such risk analysis could then be used to determine exactly what Internet-security technologies are required, as well as what level of protection is appropriate. It is clear that the e-commerce environment is not a simple one, which can be addressed easily with conventional methods. A balance must be maintained between the business needs and the technology requirements. A new approach to identifying and addressing security, suited to the e-commerce environment, is required.

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Interest Rates: Deregulation

Saghir Ahmad Ansari and Nisar A.Khan



Interest Rates

The history of interest rates policy in India since 1950 through its three phases has been well-evaluated. The second and third phases of interest rates policy have been examined with a keen comparative perspective to study the situation in India and countries abroad. The paper answers some of the questions raised about the nature, content and scope of interest rate reforms in India: the rigidity in the commercial bank interest rate structure shall be scrapped, and the interest rate pass through shall be improved. Moreover, efforts shall be made to bring down the net interest income spread of scheduled commercial banks.

Of all the monetary policy instruments, interest rate policy has come to occupy a pride of place in the context of LDCs, both because it involves a strong interventionist approach to credit markets which are imperfect and fragmented and because it affects importantly but differently critical variables, such as saving and investment emphasized in the Keynesian tradition. The direction in which interest rates should move has aroused a great deal of controversy and even caused confusion among economists.

Looking at the history of interest rates policy in India since 1950, we observe three distinct phases. The first phase lasting for a decade

(1950 – 1960) was characterized by more or less free rates of interest. The second phase lasted for a quarter century (1961-85) and it has been characterized as the phase of “administered” or regulated interest rates system. The third phase of gradual and progressive deregulation of interest rates began in 1985, received a big push in 1991 and is still continuing.

An effort has been made in this paper to analyze the second and third phase of interest rates policy in India using the experiences of other countries in this regard. The paper will answer some of the questions raised about the nature, content and scope of interest rate reforms in India.



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The System of Administered Interest Rates

A notable feature of the Indian monetary system had been the structure of administered rates of interest in which, both deposit and lending rates were prescribed by RBI. Normally, change in the Bank Rate is expected to lead to appropriate changes in all market rates of interest and help to achieve the given objective of monetary action. But when the Bank Rate lost its significance as a cost factor and signal value, the RBI used to salvage the situation by regulating market rates of interest directly. Since 1964 it had been fixing all deposit rates of commercial banks, and since 1960, their lending rates. In the case of co-operative banks, the deposit rates came under regulation in 1974 and their lending rates in 1980. The RBI and some other authorities like controller of capital issue, Indian Bank Association and Government had been directly fixing many other interest rates also. On the whole, over the years, an elaborate system of fixing either the maximum (ceiling) or minimum or differential interest rates had evolved in India.

The weakening of the Bank Rate, no doubt, had compelled the RBI to directly regulate the interest rates on bank deposits and credit. But the fundamental reason for introducing an administered structure of interest rates in India was to provide funds for certain sectors at concessional rates. In case of commercial banks, directed credit took the form of prescription of CRR, SLR and the allocation of credit for the priority sector. The CRR and SLR, together, pre-empted as much as 63.5 per cent of the deposit liabilities until recently, before a progressive reduction was initiated bringing it down. The SLR had become basically an instrument for providing cheap credit to government by commercial banks. Such concessional borrowings had been possible for government essentially because of the compulsion imposed on the financial institutions. Further, banks were also required to provide 40 per cent of net bank credit to priority sectors at concessional rates.

An element of cross-subsidization had been automatically built into the system as the concessional rates provided to these sectors had to be compensated by higher rates charged from other borrowers. Regulation of lending rates then, necessitated regulation of the deposit rates; if the average lending rate was to be maintained at a certain level, the deposit rate had to be adjusted accordingly. This, essentially, formed the genesis of the administered interest rate structure in India.

However, there is nothing inherently wrong in the process of cross-subsidization. In fact, cross-subsidization was a historical necessity

in India. Japan's experience in this regard closely parallels the Indian case. Sato (1990) has characterized the Japanese approach as under:

"In this (interest rate) policy, loan interest rates were given an upper bound below the equilibrium level that would have equated the demand for, and supply of, credit. As the demand exceeded the supply at the prevailing loan interest rates, banks had to resort to credit rationing in allowing funds to borrowers. To keep loan interest rates at a relatively low level, deposit interest rates had to be kept lower. In order to offset the potentially negative effects on the volume of savings, interest income was made tax exempt.... This kind of credit policy was effective in the rapid (financial) growth period."

The administered structure of interest rates in India no doubt had helped in bringing about a historical correction to a large extent, but it had also led to several distortions in the financial system basically because the controls in India had been far more, direct, and stifling than in other non-communist countries. The major deficiencies in the system of administered interest rates in India were well-documented by Chakravarty Committee Report (1985) as under:

- i) The administered interest rate system has grown to be unduly complex and has reduced the ability of the system to promote the effective use of credit.
- ii) Concessional rates of interest appear to have allowed projects of doubtful viability to be undertaken.
- iii) The low yields on treasury bills and government securities have, on the one hand, led to a considerable monetization of public debt, fuelling monetary expansion, and on the other hand, have adversely affected bank profitability and the growth of capital market.
- iv) The administered system of interest rates has been found to be lacking the flexibility necessary for augmenting the pool of financial savings by effecting suitable changes in the deposit rates as the low profitability of banks has made banks wary of increasing the average cost of deposits.
- v) The policy of insulating banks from price competition and confining competition to customer service has not served to promote high standards of customer service.

Interest Rate Reform: McKinnon-Shaw thesis

The recent interest-rate liberalization programme pursued by many countries draws its analytical backing from the McKinnon-Shaw thesis. In order to clarify the issues involved in this crucial area of reform, it may be useful to have a look at the said thesis.

McKinnon and Shaw provided a forceful heuristic critique of the then conventional wisdom prescribing below-market interest rates for stimulating private investment – the notion associated traditionally with Wicksell, Ricardo and later with Keynes. According to the McKinnon-Shaw thesis, below-market interest rates discourage financial savings and at the same time, permit investments to take place where marginal returns to invested capital are poor, leading to low overall efficiency of investment. Consequently, contrary to the traditional belief, below-market interest rates are conducive to economic stagnation rather than growth.

Since the early 1980s, at least two new strands have appeared which seemingly question the validity of the McKinnon-Shaw thesis – one is the so-called neo-structuralist critique propounded, among others, by Wijnbergen (1983) and Buffee (1984) and the second one associated with Stiglitz and Weiss (1981).

The neo-structuralist models argue that the McKinnon-Shaw thesis is based on a drastic over-simplification of the financial structure in most developing countries. A characteristic feature of the financial structure in developing countries is the prevalence of financial dualism, i.e. existence of formal and informal sectors in their financial markets. They contend that when this dualistic structure is taken into account, the financial liberalization as advocated by McKinnon-Shaw becomes a 'perilous undertaking.'

The Stiglitz-Weiss model on the other hand, argues that raising interest rate results in 'adverse selection' of projects and may also lead to a moral hazard. According to them, the fact that an individual is willing to borrow from a bank at a particular interest rate conveys considerable information. When interest rate is raised, those with the best projects (i.e., the least risky projects) no longer apply. As a result, the default probability rises, and with adverse selection of projects, there is deterioration in the quality of banks' portfolio. Moreover, there is also an incentive effect in the sense that higher interest rates induce the borrowers to undertake riskier projects.

The above theoretical developments lead us to ask as to whether it is analytically meaningful and operationally relevant to consider that financial repression, as McKinnon-Shaw defined is necessarily harmful in all cases.

Countries like Japan, Taiwan and Korea have made rapid strides both in regard to GDP growth and the development of their financial systems by permitting their government to strongly influence the credit allocation and interest rates. Those who are intellectually wedded to the interventionist policies are likely to see a ray of hope in the Korean and Japanese experience to justify the dirigistic approach to financial development. Amsden and Euh (1993), for instance, used what Korea did, to attack the policy of removing financial repression as counter-productive. They argue that the Korean example suggests 'modernizing its financial sector principally by creating institutions or remodeling old ones, not by relying exclusively on market forces to achieve desired goals.' However, they do not ask why it is that several other countries in Asia, Latin America and Africa, which did what Korea did, and on a larger scale and yet failed miserably. There are thus, other reasons for Korea's success achieved through government intervention, which, are deeply rooted in Korean history as well as its psychological and institutional make-up. An insight into Korea's success is provided by Lee's observation: "the experience of South-Korea demonstrates that a developing country can adopt a system of market-economy but can accelerate the pace of its economic development by establishing non-market institutions if they are complimentary to the market system and appropriate to its culture and history" (Lee 1992). Thus, the rewards from government intervention came not because new institutions were setup; the new institutions followed the course, which, the market forces would have dictated. So, the Korean policy makers may have followed a non-market approach to the financial reform but it was reinforced, though indirectly, by the competitive forces, normally generated by the markets. When the conditions became ripe, Korea took the bold step as in 1993 to divest its financial policy of its dirigistic elements and finally discarded it.

The experience of South Korea and other countries demonstrates that there is nothing inherently wrong in pursuing a policy of interest rate regulation, but the government intervention must be judicious, purposive and market oriented with the ultimate aim to move gradually to a market determined system.

Interest Rate Liberalization in India

The process of interest rate liberalization began in the mid 1980s with the submission of the report of the committee to review the working of the monetary system (popularly referred to as Chakravarty Committee Report, submitted in April, 1985). However, the initial initiative to introduce a degree of flexibility by allowing banks to set interest rates for maturities between 15 days and upto to one year subject to a ceiling of 8.0 per cent, effective April 1985, had to be withdrawn in the face of an ensuing price war by end – May 1985.

The impetus to reform the interest rate structure received the required thrust with the submission of the report of the committee headed by M. Narasimham to review the financial system in 1991. The first step in this direction was taken in September 1991 with the discontinuation of sector-specific and programme – specific prescriptions excepting for a few areas like agriculture and small industries, the Differential Rate of Interest scheme and export credit. Loans above Rs.2 lakh were freed from various prescriptions, subject to the minimum-lending rate prescribed by the Reserve Bank.

During the period 1992-1994 the lending rate structure was rationalized from the earlier six categories to three categories. In October 1994 the minimum lending rate was withdrawn and the banks were given full freedom to determine lending rates for loans above Rs.2 lakh. They were only required to announce their Prime Lending Rates (PLR); subsequently, in October 1996, in view of the high spreads over the PLR and to impart a degree of transparency, banks were advised to announce the maximum spread over PLR. In 1998 RBI decided that interest rates on loans below Rs.2 lakh would not exceed the PLR of the concerned bank. It was also decided that interest rates on all advances against term deposits would be equal to PLR or less. Banks were later permitted to operate different PLRs for different maturities and lend at sub-PLR to creditworthy borrowers.

Currently, banks are free to prescribe their own lending rates, including the PLR, after duly taking into account their cost of funds and transaction cost. The only lending rates now prescribed by RBI are the concessional rates (below the PLR of the respective banks) for certain sectors like exports, and under the differential rate of interest scheme.

Compared, to lending rate, deposit rate deregulation was more gradual as it was considered prudent to free deposit interest rates

at the end of the process of deregulation and at a time when inflation was under control. The process of deposit rate deregulation began in April 1992 by replacing the existing maturity-wise prescription by a single ceiling rate of 13 per cent for all deposits above 46 days of maturities. The ceiling rate was revised in November 1994 and April 1995. In October 1995, deposits of maturity of over two years were exempted from ceiling and later in July 1996 deposits of maturity of over one year were exempted from the ceiling. The ceiling rate for deposits of '30 days up to one year' was linked to Bank Rate less 200 basis points in April 1997. The linkage to the Bank Rate was removed and thus deposit rates were fully deregulated in October 1997. In April 1998 banks were allowed to offer differential rates of interest depending upon the size of the deposit. The minimum period of maturity of term deposits was reduced from 30 days to 15 days. The deposit rates in respect of non-resident rupee deposits were also deregulated on broadly similar lines while that on foreign currency deposits are subject to a ceiling rate linked to London Inter Bank Offer Rate (LIBOR).

At present the only domestic deposit rate that continues to be prescribed is the savings deposit rate (fixed at 3.5 per cent, effective March 2003). Banks are otherwise free to offer interest rates on deposits of any maturity above 15 days. They are also free to offer a fixed rate or a floating rate on term deposits.

While banks term deposit rates stand deregulated, small savings continue to be administered, thereby imparting a degree of rigidity to the interest rate structure. The current schemes of small savings serve a dual purpose: (i) of providing an instrument for the small savers from rural and semi-urban areas and (ii) towards borrowing requirements of the government. As such, these savings are mobilized with incentives like higher interest rates than other competing instruments and in some cases with tax concessions. The Expert Committee to Review the System of Administered Interest Rates and Other Related Issues (Chairman: Y.V. Reddy) (RBI, 2001) recommended that interest rates on small savings and other administered instruments of various maturities needed to be benchmarked to the secondary market yields of government securities of corresponding maturities prevailing in the previous year. In pursuance of these recommendations, the Union Budget 2002-03 announced that interest rates on small savings would be henceforth linked to the average annual yield of government securities in the secondary market for the corresponding maturities prevailing in the previous year, with an annual adjustment on an automatic and non-discretionary basis. Interest rates on small savings

instruments were cut by 50 basis points in the Union Budget, 2002-03 and by another 100 basis points in the Union Budget, 2003-04. Government appointed another committee under the chairmanship of Rakesh Mohan in 2004 to advise on the administered interest rates and rationalization of saving instruments. The committee recommended that interest rates on small savings instruments should be based on a weighted average of the yield of government securities in the previous two years rather than previous year alone. In spite of these recommendations, the interest rates on small savings instruments are not adjusted frequently. So the administered interest rates on small saving instruments are partially responsible for the rigidity in the market interest rates.

Complete deregulation of interest rates seems to be practically impossible. Interest rate is a strategic variable and its level can be and is influenced by the actions of the monetary authority. In that sense, nowhere in the world is the interest rate purely determined by market forces. It is the function of the monetary authority's policy intervention through the various instruments available to it to move the rate of interest towards a level considered appropriate. Within this policy framework, market forces have a greater role in determining the structure of interest rates rather than its level. The monetary authority, however, cannot keep the interest rates for long at levels that are inconsistent with the basic supply and demand balance.

In an economy, where the macro-economic conditions are stable and the distributions of returns in the projects of borrowers is statistically independent of one another, the banks that are following prudent policies would on their own practice a ceiling on their interest rate, without being dictated by any regulatory authority. However, if there are conditions of macro-economic instability with inherent inflationary pressure and real exchange rate instability, the expected return on bank loans, taking into account the probabilities of default, may fall much below the actual real rate of interest especially if there is a positive covariance among the expected returns to projects within any one-risk class. Without the regulatory authority trying to restrain the interest rates, the banks may try to take undue risks. The incentive to make high-interest, and therefore, high risk loans can be very tempting, because a favourable outcome may lead to very large profits, while they can walk away when there are heavy losses.

In support of the above argument we can refer to the Chilean experience from 1976 to 1982, when uncontrolled interest rates coupled with implicit deposit insurance of banks led to adverse

risk selection among the borrowers and severe moral hazards in the banks themselves. Even though the macro-economic conditions were unstable subject to large changes in the rate of inflation and real exchange rates, Chile had removed interest ceilings on deposits and loans in a mistaken form of financial liberalization and their financial system almost collapsed. Like Chile, Argentina and Uruguay had also made similar efforts to deregulate and privatize their banks without sufficient fiscal and monetary controls in place. Interest rates on both deposits and loans were completely freed, leading to unexpectedly high lending rates, enterprise bankruptcies and bank failures, to prevent which the governments had to reintroduce regulations.

The above examples reinforce the argument that in a somewhat unregulated interest rate regime, the monetary authority has to play very important role and has always to be watchful and ready to act as and when the need arises.

Interest Rate Reforms in India: An Assessment

Cross-country experience suggests that positive and stable real interest rates play an important role in efficient allocation of financial resources (Goyal and McKinnon, 2003). Barring few years, real deposits and lending rates in India remained positive from 1980-81 to 2005-06.

Lending rates for loans above Rs.2 lakh were deregulated in October 1994 and the deposits rates were deregulated in October 1997. Real lending rate and real deposits rate of banks are given in Table-1.

The table reveals that the average real lending rate for the period 1994-95 — 2005-06 was lower compared to the same for the period 1980-81 — 1993-94. Further, the coefficient of variation of real lending rate during the period 1994-95 – 2005-06 was significantly lower compared to the same during the period 1980-81 — 1993-94. This means that real lending rates became lower and more stable after deregulation. The Table also reveals that average real deposits rate for the period 1997-98 – 2005-06 was quit higher compared to the same for the period 1980-81 – 1996-97 and the coefficient of variation of real deposits rate during the period 1997-98 – 2005-06 was very low compared to the same during the period 1980-81 –1996-97. Thus, real deposits rates became higher and more stable after deregulation. While real lending rate generally declined during the 1990s as compared with the 1980s, real deposits rate increased during the same period. As a result, the gap between the lending rate and the deposits rate, in

Table-I: Real Interest Rates and Interest Rate Spread in India

Year	Real Deposit Rate	Real Lending Rate	Interest Rate Spread		
1980-81	-1.4	-2.7	6.5	Real Deposit Rate: 1980-81 to 1996-97	
1981-82	-2.5	11.3	6.5	<i>Average</i>	1.1588
1982-83	2.2	13	6.5	<i>SD</i>	2.092
1983-84	-2.6	10.4	6.5	<i>CV</i>	180.53
1984-85	3.7	9.5	6.5		
1985-86	3.2	10.5	6.5	Real Deposit Rate: 1997-98 to 2005-06	
1986-87	1.3	12.7	6.5	<i>Average</i>	3.333
1987-88	1.2	9.3	6.5	<i>SD</i>	2.656
1988-89	0.6	7.1	6.5	<i>CV</i>	79.68
1989-90	3.9	5.2	6.5		
1990-91	-0.6	8.1	5.5		
1991-92	-0.5	5.2	3.5	Real Lending Rate: 1980-81 to 1993-94	
1992-93	1.4	8.1	8	<i>Average</i>	8.492
1993-94	2.5	11.2	9	<i>SD</i>	4.036
1994-95	0.9	2.7	4	<i>CV</i>	47.53
1995-96	2.8	8	3.5		
1996-97	3.6	6.9	1.5	Real Lending Rate: 1994-95 to 2005-06	
1997-98	5.2	11.1	2	<i>Average</i>	7.462
1998-99	-1.6	9.6	2.5	<i>SD</i>	2.523
1999-00	7.1	9.3	1.5	<i>CV</i>	33.81
2000-01	6.2	8.2	1.5		
2001-02	4.2	9.7	3		
2002-03	2.25	8.15	4.5		
2003-04	1.6	4.8	3.75		
2004-05	2.45	3.95	4		
2005-06	2.6	7.15	3.25		

Source: Report on Currency and Finance – Various Issues

- Note: 1. Real Deposit Rate = Nominal Deposit Rate (5 year bank deposit rate)- Consumer Price Inflation
 2. Real Lending Rate = Nominal Lending Rate (SBI advance rate)-Manufacturing Inflation
 3. Interest Rate Spread=Nominal Lending Rate-Nominal Deposit Rate

real terms, narrowed significantly in the second half of the 1990s (Table-1). This was reflective, to an extent, of the increased competitiveness and efficiency of the Indian commercial banks. But this efficiency was achieved partially due to the downward rigidity of the nominal deposits rates.

Table-1 also gives the interest rate spreads, which is defined as the difference between nominal lending rate and nominal deposits rate. The table reveals that interest rate spread has significantly declined during the post- reforms period. But it is still high as compared to that in U.S.A., U.K. and China.

An important indicator of the efficiency of the banking system and flexibility of interest rate structure is net interest income. It is defined as the difference between bank's interest income and interest expenses as a proportion of its total assets. Net interest

income of scheduled commercial banks has declined during the post- reforms period (Table-2). But it is still substantially higher than the standard international norm as shown in the table-2.

Table-2: Net Interest Income / Spread as Percentage of Total Assets of Scheduled Commercial Banks (SCBs) in India

Net Interest Income as Percentage of Total Assets				
Year	SCBs	Public Sector Banks	Private Sector Banks	Foreign Banks
1991-92	3.31	3.92	4.02	3.92
1992-93	2.51	2.39	2.91	3.56
1993-94	2.54	2.36	2.97	4.21
1994-95	3	2.92	2.69	4.24
1995-96	3.13	3.08	3.08	3.74
1996-97	3.22	3.16	2.92	4.13
1997-98	2.95	2.91	2.46	3.93
1998-99	2.78	2.8	2.09	3.47
1999-00	2.73	2.7	2.16	3.92
2000-01	2.85	2.86	2.33	3.63
2001-02	2.57	2.73	1.58	3.22
2002-03	2.77	2.91	1.97	3.35
2003-04	2.88	2.98	2.21	3.59
2004-05	2.83	2.91	2.34	3.34
2005-06	2.78	2.85	2.3	3.52

Source: Report on Trend and progress of Banking in India, Various Issues

The above table shows that net interest income of scheduled commercial banks increased from 2.77 in 2002-03 to 2.88 in 2003-04. It indicates that banks did not fully pass on the benefits of falling interest rates to their customers. Lending rates of banks have exhibited considerable downward rigidity despite the efforts of RBI.

The speed and the magnitude of the response of the market interest rate spectrum to the monetary policy signals is very important from the point of view of the effectiveness of monetary policy. It is called as 'Interest Rate Pass – through.' Between March 1998 and February 2003, the Bank Rate and the repo rate were cut by 425 basis points and 250 basis points, respectively. In addition, the CRR

was reduced by 550 basis points over the same period. The repo rate was cut by a further 50 basis points in March 2003. The easing of the monetary policy stance was mirrored in a general softening of interest rates in the money markets (with call rates declining by almost 325 basis points) and in the government securities markets (with the yield on 10-year government securities declining by almost six percentage points). However, the prime lending rates of major banks remained sticky. This suggests a low level of pass-through of the changes in the policy rates on to the lending rates, thereby blunting the efficacy of the monetary policy.

In contrast to the Indian experience, the pass-through in the USA is almost instantaneous and complete. For instance, between January

2001 and January 2003, the Fed Funds rate declined by 474 basis points; the prime rate over the same period declined by 480 basis points. The correlation coefficient between the two rates was, therefore, nearly unity. The spread of the prime rate over the Fed Funds rate was almost constant at 300 basis points in the US as compared with almost 600 basis points over the Bank Rate in India at present. The pass-through is relatively lower on to the long-rates. For instance, the correlation coefficient of 10-year Treasury yields with the Fed Funds rate was 0.70 over the period January 1997 to January 2003. On the other hand, in India, although long-term yields fell in line with the monetary easing, the prime-lending rate did not show much co-movement (Currency and Finance, 2001-02).

Interest rates are normally expected to be well-aligned with one another in the sense that the differences (spreads) in them are narrowed down on account of the arbitrage among financial instruments, and that there is a similarity in the direction, timing, extent and frequency of their relative variations. L.M. Bhole on the

basis of Inter-correlation matrix of nominal interest rates for the period 1952-86 and 1952-96 concluded that interest rates were better aligned with one another in the post- reforms period.

Another aspect of efficiency could be the difference between domestic and international benchmark rates. There has been a noticeable decline in the difference between real interest rates in India and international benchmark rates (LIBOR 1 year) since the mid-1990s. After deregulation of interest rates, India's real domestic interest rates (deflated for movements in exchange rates) have got better aligned with international benchmark rates, notwithstanding the adverse impact of the East Asian crisis during the latter half of the 1990s. This suggests increased integration of the banking sector with the rest of the world (Report on Currency and Finance, 2001-2002).

Let us now look at the growth of bank deposits and credit. Table-3 gives the growth of deposits and credit of Scheduled Commercial Banks.

Table-3: Deposits and Credit of Scheduled Commercial Banks in India

Year	(Rupees Crores)			
	Aggregate		% Growth Rate	
	Deposits	Credit	Deposits	Credit
1991-92	3.31	3.22	4.02	3.92
1980-81	37988	25371	19.6	17.8
1981-82	43733	29682	15.1	17
1982-83	51358	35493	17.4	19.6
1983-84	60596	41294	18	16.3
1984-85	72244	48953	19.2	18.5
1985-86	85404	56067	18.2	14.5
1986-87	102724	63308	20.3	12.9
1987-88	118045	70536	14.9	11.4
1988-89	140150	84719	18.7	20.1
1989-90	166959	101453	19.1	19.8
1990-91	192541	116301	15.3	14.6
C.G.R.*	17.948	16.312		

* Compound Growth

(Rupees Crores)				
Year	Aggregate		% Growth Rate	
	Deposits	Credit	Deposits	Credit
1991-92	230758	125592	19.8	8
1992-93	268572	151982	16.4	21
1993-94	315132	164418	17.3	8.2
1994-95	386859	211560	22.8	28.7
1995-96	433819	254015	12.1	20.1
1996-97	505599	278401	16.5	9.6
1997-98	598485	324079	18.4	16.4
1998-99	714025	368837	19.3	13.8
1999-00	813345	435958	13.9	18.2
2000-01	962618	511434	18.4	17.8
2001-02	1103360	589723	14.6	15.3
2002-03	1280853	729215	16.1	23.7
2003-04	1504416	840785	17.3	15.3
2004-05	1700198	1100428	13	30.9
2005-06	2109049	1507077	24	37
C.G.R.*	16.83	18.03		

* Compound Growth

Source: Handbook of Statistics on Indian Economy, RBI, 2006.

The table 3 reveals that bank credit grew at a higher rate during the period 1991-92 – 2005-06 as compared to the same during the period 1980-81 – 1990-91. However, the same has not been the case with the deposits, which grew at a lower rate during the period 1991-92 – 2005-06 as compared to the same during the period 1980-81 – 1990-91. It is interesting to note that the slow growth of aggregate deposits during nineties was registered in spite of the downward rigidity of nominal deposits rates during the period. The relatively higher benefits on small savings instruments boom in real estate sector and increase in the number of saving options appears to be primarily responsible for the slow growth of bank deposits during nineties. However, the advantage of small savings instruments is greatly reduced now due to the extension of tax concessions, available on small savings instruments, to bank deposits of five years duration, linking the interest rates on small

savings instruments to the yield of Govt. securities and the recent surge in the deposits rates of banks.

Looking at the lending operations of banks and pricing of their advances, we find that in spite of the shift in approach from lending based on credit allocation targets and administered interest rates to risk based system of lending and market-determined interest rates, banks continue to charge interest rates to borrowers by their category - whether agriculture or small scale industry – rather than actual assessment of risk for each borrower. There is sizeable evidence to the effect that it is the informal sector borrowers who tend to bear higher cost of borrowing as a result of positive discrimination in favour of corporates (EPW Research Foundation, August 26, 2006). RBI also recognized it in its May 2004 policy statement:

“While there is intense competition among banks to lend large top-rated borrowers, other borrowers with long-standing relationship with banks and good credit record do not get the benefit of lower rates.”

It is also found that the banks charge rates of interest far beyond their Prime Lending Rates to their rural household borrowers. In the NSSO’s latest All India Debt and

Investment Survey for January-December 2003, it is revealed that, about 82 per cent of debts owned by rural households at the end of June 2002 were contracted at rates ranging from 12 to 20 per cent. Compared to this in urban areas, only 54 per cent of debts were contracted at the rates ranging from 12 to 20 per cent and 44 per cent debts were contracted at rates less than 12 per cent (Table-4).

Table-4: Percentage Distribution of Amount of Cash Debt by Rate of Interest

(as on June 30, 2002)						
Rate of Interest	Rural			Urban		
	Institutional	Non-Institutional	All	Institutional	Non-Institutional	All
Nil	1	18	8	3	33	10
Less than 06	2	2	2	4	1	3
06—10	4	1	3	12	1	9
10—12	9	1	5	25	1	19
12—15	48	1	28	32	4	25
15—20	34	3	21	22	9	19
20—25	1	33	15	1	18	5
25—30	0	0	0	0	1	0
30>	0	40	17	1	32	8
All	100	100	100	100	100	100

Source: Economic and Political Weekly, August 26, 2006, pp 3633.

RBI has to take necessary measures to end the biased attitude of banks towards their borrowers from informal sector and rural areas. Banks cannot be allowed to discriminate against their borrowers from informal sector and rural areas in the name of freedom. If the issue is not addressed on priority basis, it may lead to socio-political discontent and general disenchantment with the working of the system.

Conclusions

The interest rate structure in India has been reformed to a large extent. The country has now got rid of the bewildering detailed and rigidly administered interest rate structure. Both deposits and lending rates of banks are now deregulated with few exceptions.

After interest rates deregulation, the real deposits and lending rates have become more stable and the gap between the two has narrowed down. The nominal interest rates pertaining to various saving instruments are now better aligned with one another. There has been a noticeable decline in the difference between real interest rates in India and international benchmark rates (LIBOR 1 year).

However, in spite of all the above-mentioned achievements, still a lot has to be done to remove the rigidity in the commercial bank interest rate structure and to improve the interest rate pass-through so as to improve the effectiveness of the monetary policy. Efforts should also be made to bring down the net interest income/spread of scheduled commercial banks. There are evidences that banks discriminate against their borrowers from informal sector. They under

price the credit risks in case of corporate sector and overprice the risks in lending to the informal sector. As a result the borrowers from informal sector are charged relatively high interest rates. There is also evidence that banks charge higher rates of interest to borrowers from rural areas as compared to the urban borrowers. All this suggest that RBI has to take certain tough measures to ensure that banks adopt a fair system of pricing of their advances. The role of monetary authority has become very important in the somewhat unregulated interest rate regime. It has to be very watchful and ready to act as and when the rules of the game are violated either in letter or in spirit.

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Power Brands in Reality Shows

Kisholoy Roy



The objective of the article is to discuss the various key factors responsible for altering the brand identity of one power brand possessing weaker brand vitality and stature by another power brand possessing greater vitality and stature in the context of reality shows. For a wider and better understanding of the phenomenon, the example of Kaun Banega Crorepati (KBC) has been cited in the paper. The article delves in detail the concept of power brands along with discussing the various key elements of brand asset value, which in turn defines the identity, and stature of a brand. It also offers an understanding of the various facets of brand identity prism and how they get altered when power brands of varying strengths interact. It discusses the two leading 'personality' power brands of the Indian entertainment industry viz. Amitabh Bachchan and Shah Rukh Khan. It enumerates the various aspects that gave the two an edge over another power brand (KBC) in terms of brand vitality and stature as the anchors of the show. The brand identity facets of each of the personality brands have been highlighted and the way Bachchan and Khan's identity facets influenced KBC's brand identity facets have been discussed. The article concludes that in the context of reality shows, it has been observed that if a reality show achieves the status of a power brand and the anchor of the show is a powerful 'personality' brand, then the interaction between the two over a span of time influences the identity of the brand with weaker brand vitality and stature.

In the context of reality shows on television, it has been observed that if a particular show achieves the status of a power brand (in terms of its brand asset value) and the person who anchors the show is a powerful 'personality brand' then, the interactions between the two over a period of time seems to create an impact on the identity of the brand that possesses lesser strength and brand stature. To understand the concept in a better way, we look at one of the most popular reality shows on Indian television in recent times and that is *Kaun Banega Crorepati (KBC)*.

Since July 2000, when *KBC* was first aired on *Star TV*, it has been considered a trendsetter of sorts. There had been no

game show, which offered a crore as prize money prior to *KBC*. There hadn't been any show before *KBC* that showcased such a

grand and sophisticated gaming ambience with an international feel. It was *KBC* that introduced an iconic brand like Amitabh Bachchan as its anchor. Never before did any reality show present a personality comparable to Bachchan's stature and brand value as its anchor. In early 2007, it was *KBC* that heralded the return of Shah Rukh Khan (another iconic brand of Bollywood in terms of brand value and recognition and popularity amongst the cine goers) to television as the anchor of the show. Besides these factors, *KBC* was a power brand in the arena of reality shows on Indian television right from day one. The reason



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being that the format of game show was originally conceived in the UK and it was first aired over there in September 1998 as *Who Wants to be a Millionaire?* The format not only proved successful over there but it tasted success in various other countries like Australia, Belgium, Germany, Netherlands, Spain and the US before it was aired on Indian television. Localization strategy was followed so far as naming of the game show was concerned in some countries like India but then the look; feel and format of the show remained the same. Thus as a game show, the Indian version of *Who Wants to be a Millionaire?* has been a power brand right from the word go.

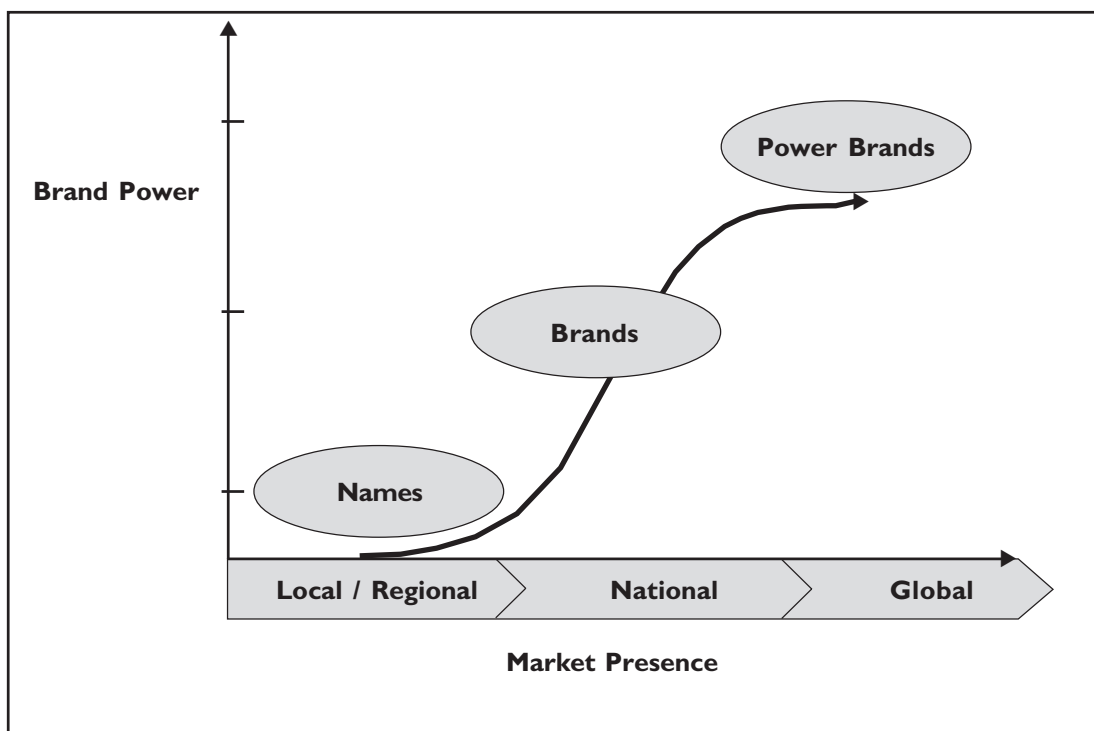
What is a Power Brand?

The evolution of power brands constitutes three distinct phases. Any power brand starts as a name when it is recognized at a local

or regional level. When that name gets recognition at the national level, it becomes a brand and when that brand seeks global acknowledgement, it is called a power brand [Exhibit -I]. The various phases in the evolution of power brands holds true for 'personality brands' too.

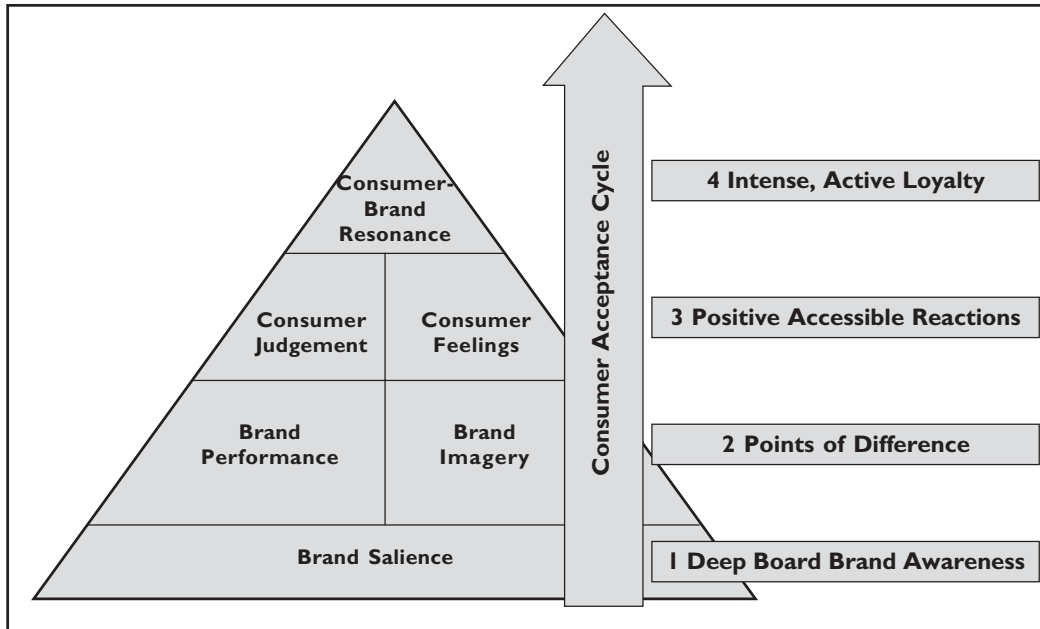
Another way of looking at how any brand becomes a power brand is to analyze the brand equity pyramid from the consumer's perspective. At the lowest level of the pyramid, any brand just communicates its identity to the target audience. Next by way of its performance and imagery, a brand establishes a strong meaning for itself in the minds of the audience. At the third level of the pyramid, any brand becomes successful when it extracts favourable response from the target audience. Finally, when a brand establishes a strong relationship with its consumers, it is understood to have achieved high degree of brand resonance and power [Exhibit-II (a) & (b)].

**Exhibit-I
The Evolution of Power Brands**



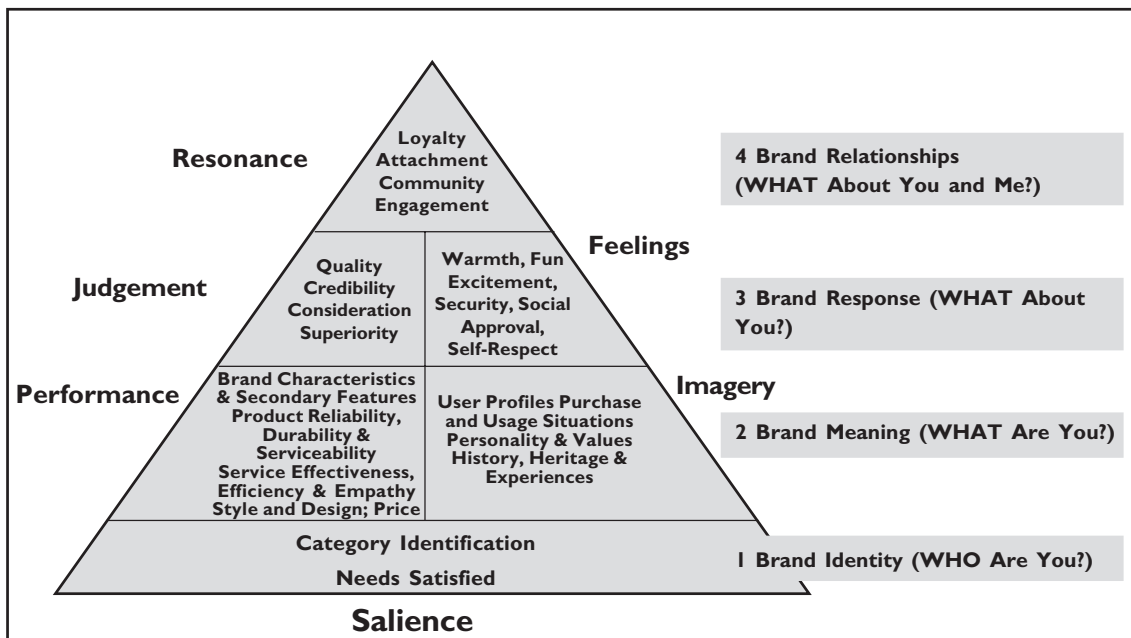
Source: <http://www.esnjips.com/doc/7e26b78b-88b0-42e1-a366-e76955ad8d12/Brand-Management>

**Exhibit-II (a)
The Brand Equity Pyramid**



Source: <http://www.esnips.com/doc/7e26b78b-88b0-42e1-a366-e76955ad8d12/Brand-Management>

**Exhibit-II (b)
The Brand Equity Pyramid: A Comprehensive Representation**



Source: <http://www.esnips.com/doc/7e26b78b-88b0-42e1-a366-e76955ad8d12/Brand-Management>

Amitabh Bachchan, Shah Rukh Khan and KBC: Power Brands?

Amitabh Bachchan made his entry into Bollywood in the early 1970s. He came to the limelight with *Zanjeer* where he played the role of a cop. This film was also instrumental in giving him the angry young man tag. *Zanjeer* was followed by several other successful movies like *Sholay*, *Deewar*, *Namak Haram*, *Abhimaan*, *Namak Halal*, *Kaalia*, *Silsila*, *Amar Akbar Anthony* and many more. The name Vijay has been synonymous to Bachchan so far as character names in Bollywood are concerned. People’s admiration for Bachchan got emphasized when he was critically injured while shooting for the film *Coolie*. The entire nation prayed for his speedy recovery. People’s love for Brand Bachchan got highlighted once again when he contested the Lok Sabha polls in 1984 from the Allahabad constituency and won by an overwhelming margin. After a brief hiatus, Bachchan made a comeback in Bollywood with *Shahenshah*. Soon after, box-office hits like *Agneepath* and *Hum* followed. *Black* has been one of the highly acclaimed films of Bachchan in recent times.

Over the years, Amitabh Bachchan has been found to enchant cine goers by his superb histrionic skills. He has played a variety of roles in his film career and in each one, he has dazzled as a thespian with his intense emoting skills and distinct baritone. His films belong to an altogether different league in the context of Bollywood movies. His films have not only been watched and appreciated in India but also overseas by not only the NRIs but also by people of various other origins. Bachchan’s style, his efficiency in enacting a variety of roles with élan, his personality, the values he stood for in the films as a person have all lent a credibility to Brand Bachchan. He has been able to extract the warmth and affection of people, which with the passage of time developed into a high degree of loyalty and attachment towards the brand.

Amitabh Bachchan has been nominated as *The Best Actor* 28 times at the *Filmfare Awards*, which is a record. He has won the *Filmfare Awards* 14 times in various categories. In 1982, Bachchan was awarded the *Padma Shri* by the Government of India. In 1999, Bachchan was named the “Greatest Star of the Millennium” by the BBC online poll where he defeated Hollywood legends like Alec Guinness, Marlon Brando and Charlie Chaplin. In 2000, the *Filmfare* recognized Bachchan as the *Superstar of the Millennium*. It was in 2000, when Bachchan became the first living Asian who was immortalized in wax at London’s Madame Tussauds wax museum. Bachchan was appointed as the Brand Ambassador of *International*

Indian Film Academy (IIFA) in 2000. The organization promotes Hindi films globally. In 2001, the Government of India awarded the *Padma Bhushan* to Amitabh. Bachchan was awarded the *Filmfare Power Award* in 2004. *Filmfare* thus recognized Bachchan as the most powerful film personality in Bollywood. In 2007, Amitabh Bachchan received the *Légion d’honneur*, France’s highest civilian honour for his contribution to the world of cinema.

Amitabh Bachchan has also been one of the most recognized faces in the celebrity endorsement circuit. He has endorsed a variety of brands like *Parker Pens*, *Dabur Chyawanprash*, *Cadbury’s Dairy Milk*, *Pepsi*, *Maruti Versa* [Exhibit-III]. As a brand in the context of celebrity endorsements, Amitabh Bachchan is worth Rs.500 crores. Advertisers have successfully leveraged Bachchan’s popularity, reach, credibility and people’s loyalty and attachment towards him. Brand Bachchan is thus a ‘hot’ property for the advertisers in terms of his value and strength.

Exhibit-III Amitabh Bachchan: The Star Endorser

Produced Endorsed	Product Category
BPL	Consumer Electronics
Pepsi	Beverages
Mirinda	Beverages
ICICI	Financial Services
Parker	Writing Instruments
Roid & Taylor	Apparel
Maruti Versa	Automotive
Cadbury’s	Chocolates
Nerolac	Paints
Hajmola	Digestive Aid
Navratna	Personal Care
Emami Boroplus	Antiseptic Cream
Eveready	Batteries
Dabur	Diet Supplement
Sahara City Homes	Real Estate
Tide	Detergent
D’damas	Jewellery

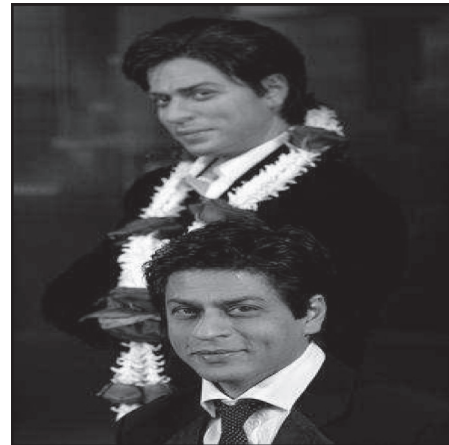
Source: <http://www.blonnet.com/catalyst/2005/03/17/stories/2005031700100200.htm>

Shah Rukh Khan (or SRK as he is sometimes referred to) has been another actor of Bollywood, who has been found to evolve as a

power brand within 15 years of his film career. He started as a television actor where he acted in serials like *Fauji* and *Circus* before striking gold in Bollywood with his first big box office hit, *Baazigar*. Some of the other prominent films in Khan's career have been *Deewana*, *Darr*, *Dilwale Dulhania Le Jayenge*, *Raju Ban Gaya Gentleman*, *Dil to Pagal Hai*, *Kuch Kuch Hota Hai*, *Kabhi Khushi Kabhi Gham*, *Veer-Zaara*, *Main Hoon Na* and *Swades*. He has acted in over 45 films till date where he has been found to portray a range of emotions and characters. He has successfully connected with the cine goers in whatever he has done. SRK has credible performances as a romantic hero, as a villain, as an action star, as a comedian and also as a common man. Over the years, SRK's flamboyance, his style, charm and his wit have largely appealed to the youth across the globe.

Shah Rukh Khan has been nominated 15 times as the *Best Actor* at the *Filmfare Awards*, out of which he has won six times. Apart from that, he has won awards in the Best actor category at various other award forums like the *Zee Cine Awards*, *Star Screen Awards* and at the *IIFA Awards*. In 1997, SRK was awarded the *Best Indian Citizen Award*. The *Rajiv Gandhi Award for Excellence in the Field of Entertainment* was awarded to Khan in 2002. In 2005, the Government of India conferred the *Padma Shri* on Shah Rukh Khan. The *TIME* magazine described Khan as the most recognizable actor in the world in 2004. The magazine mentioned, "At 38, Khan has reached a level of hero worship attained by few actors in history. Every film he graces—no matter how bad—is a surefire smash, every product he endorses is a best seller, and there are so many shrines to him across India that he could launch a new religion. A run of hits since 1995 has raked in about a quarter of a billion dollars, mostly from 20¢ tickets. And he's almost as popular overseas: the 2002 historical romance *Devdas* took in twice as much abroad as in India, while his world tour is a sellout at up to \$300 a seat. In fact, with Bollywood's global audience running to 3.6 billion against Hollywood's 2.6 billion, Khan is—in terms of recognition—the world's biggest movie star. "No one holds a candle to him," says director and friend Karan Johar, who insists on casting Khan as lead in all his films. "Forget the top 10. He's one-to-50 by himself." Based on the global audience for Hindi films, *The Guardian* newspaper mentioned SRK as the 'world's biggest film star.' In 2007, Shah Rukh Khan was immortalized in wax at Madame Tussauds wax museum in London [Exhibit-IV]. He thus became the third Bollywood personality to seek a place in the famed museum after Amitabh Bachchan and Aishwarya Rai.

Exhibit-IV Shah Rukh Khan with his Wax Figure at Madame Tussauds



Source: http://images.scotsman.com/2007/04/03/2007-04-03T174925Z_01_NOOTR_RTRIDSP_2_OUKEN-UK-KHAN-WAXWORK.jpg

In the context of brand endorsements, SRK as a brand has been immensely successful. Some of the leading brands he endorses include Hyundai, Pepsi, Airtel, Tag Huer, Clinic All Clear, Bagpiper and Videocon, among others. Most of the brands that SRK endorses are brands aimed at the youth where Shah Rukh has an overwhelming fan following. Brand SRK commands a price ranging from Rs.2.5 crore to Rs.4 crore per endorsement. Khan's income from endorsements is estimated to be between Rs.15-18 crore annually.

Coming to Brand *KBC*, it was for the first time that an extremely successful global game format was being reproduced on Indian television. With Amitabh Bachchan as its anchor and Rupees One crore as prize money, there was tremendous excitement among the television audience. The profile of the studio audience, the profile of the contestants, the sophisticated and international ambience of the quiz show, the style with which it was conducted, the use of telephone for the initial enrolment of contestants were the various factors that established a strong meaning and imagery in the minds of the viewers. With Amitabh Bachchan as its anchor, *KBC* was not just viewed by viewers in India but also in other parts of the world where Star Television reached. It was the mastermind of the producers behind *KBC* who have been found to make a sincere effort over the years to maintain an element of freshness and excitement around the brand. The very second edition of *KBC* saw the prize money being hiked to Rupees two crore. This was smartly highlighted in the teaser ads starring Amitabh Bachchan

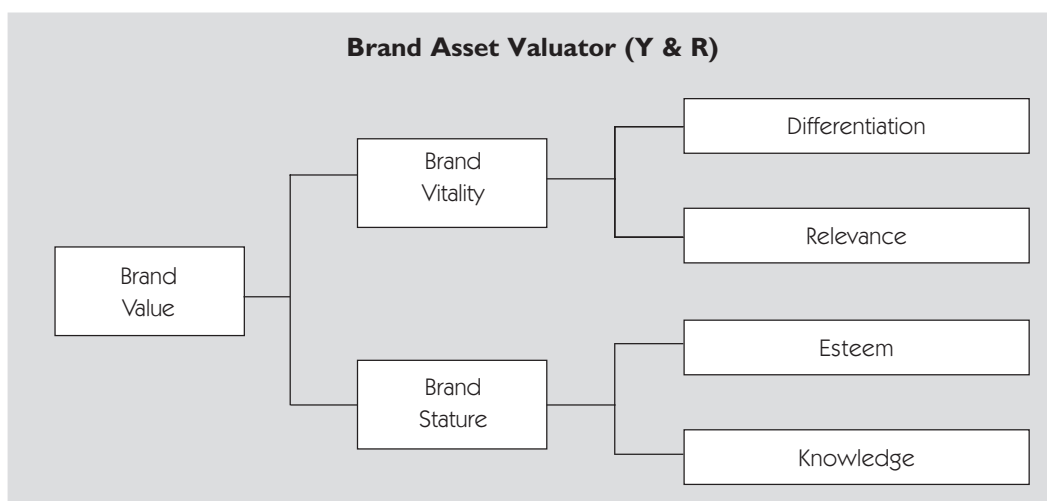
with the punchline, *Ummeed Se Dugna*. When Shah Rukh took over from Amitabh as the host of the show in the third edition of *KBC*, an interesting story was weaved around the theme, *Kuch Sawaal Aapki Zindagi Badal Sakte Hain*. The *Karle Karle* song that was aired in the first episode of *KBC 3* was an innovative and distinct idea to keep the excitement around the brand alive. The introduction of the *Flip the Question* option as the fourth lifeline available to contestants who clear the Rs.20,000 stage was another observation in this context. It has been found that the producers behind the show have constant

brought in new ideas to reposition Brand *KBC* so that it occupies a distinct perceptual territory in the minds of the consumers.

What Determines the Brand Asset Value?

As per the advertising agency, Young and Rubicam, there are four broad factors that determine the brand value. The agency established the Brand Asset Valuator model that provides a clearer picture [Exhibit-V].

Exhibit-V
The Brand Asset Valuator Model



Source: http://www.valuebasedmanagement.net/methods_brand_asset_valuator.html

The idea that has been suggested through the model is that the relationships between the four key factors reveal the true picture of a brand's health like its intrinsic value, its capacity to carry a premium price and its ability to keep competitors at bay. Differentiation has been stated to be the foundation of a brand's existence. Successful brands have the ability to strongly distinguish themselves from the competitors. Consumer choice, brand essence and potential margin are all driven by the fact that to what extent is a particular brand distinct from its competitors. The more differentiated a brand is, the more are its chances to be tried and there are less chances of it being substituted. Relevance is the actual and perceived importance of a brand to a large consumer segment. The factor measures the appropriateness of a brand to consumers and is strongly tied to household penetration. Differentiation and Relevance

are the two factors that constitute the Brand Strength. Another method of estimating the strength of a brand has been put forth by Peter Doyle in his book, *Marketing Management and Strategy*:

Brand Strength = Product Benefits X Distinct Identity X Emotional Values

The above formula is largely based on the theory suggested in the Brand Asset Valuator model.

Esteem is the perceived quality and consumer perceptions about the growing or declining popularity of a brand. Quality and popularity are the two factors that measure the esteem of a brand. Knowledge measures the extent of a consumer's awareness of brand and the

understanding of its identity. It basically captures the intimacy and understanding of a brand. Esteem and Knowledge constitute a brand's stature, which in fact reveals a brand's persuasiveness in the market place.

As a brand, Amitabh Bachchan has been consistently observed to strongly differentiate himself from other actors in Bollywood. His physical stature along with his distinct baritone, his larger than life image played on the silver screen over the years, his versatility as an actor, the incredible public adulation and his stature as one of the living legends of Bollywood were the various factors that distinguished Amitabh Bachchan from the anchors of other reality shows. With the kind of sophisticated image attached to *KBC*, people perceived Amitabh to be a perfect fit as the host of the show [Exhibit-VI].

Exhibit-VI Amitabh Bachchan on the sets of KBC



Source: <http://im.rediff.com/movies/2006/feb/03kbc2.jpg>

This translated into greater household penetration. In other words, Bachchan's relevance as a brand was well-defined. In fact, with higher differentiation, Bachchan, as the anchor of *KBC* had almost negligible chances of being substituted by any other host since finding a comparable alternative was a difficult task. Bachchan was found to fulfill the expectations of the audience and thus as a brand, he was successful in maintaining the brand promise which added to his esteem. People knew Amitabh as an actor but then they know very little about him as a human being. They were curious to know more about the actual person behind the mega star, which was a healthy indication so far as the stature of Brand Bachchan was concerned.

It was the strong differentiation that Bachchan created for himself which seemed to give headaches to the producers of *KBC* when his replacement became the need of the hour due to his ailment. Initially, when SRK stepped into the shoes of Amitabh, he received audience feedback. But then, it was soon found that the producers made the best choice in the context of seeking an alternative for Amitabh as the anchor of *KBC*. If Amitabh appealed to the older generation, it was Shah Rukh who had tremendous fan following among the youth. His flamboyance, humbleness, wittiness, style, on-screen persona and last an most importantly, the incredible success that he achieved in relatively short period of time as an actor were some of the key factors that differentiated SRK as a 'personality brand.' People's perception regarding SRK's appropriateness as the host of *KBC* had a positive effect in terms of relevance. People's perception regarding the quality of his acting and popularity as an actor contributed to high esteem for the brand and was the case with Bachchan, the audience wanted to discover the actual person behind the super star as they had limited knowledge about him as a human being which contributed to his high Brand Stature.

When Star TV started broadcasting *KBC*, it had definitely something unique to offer in terms of sophistication, lifelines that aided the contestants and the huge prize money. But then, it was after all a quiz program and Indian television had an illustrious history of showcasing quality quiz programs since the 1980s. It was *Quiz Time* on *Doordarshan* hosted by Siddharth Basu. The same gentleman hosted the *Mastermind India*. Although *Bournvita Quiz Contest* presented school children as contestants but then the quality of the questions were definitely remarkable. Soon after *KBC* started, quiz programs offering similar amounts of money started on other channels like *Zee TV* and *Sony TV* which disallowed *KBC* to maintain its differentiation. Though jargons used on the show like *Lock Kiya Jaaye* became extremely popular and people were tempted to use it in their daily interactions with others but then that had far less positive impact on the long-term health of the brand. In the context of the extent of household penetration or relevance, *KBC* fared well largely due to its anchors, which had a positive rub-on effect on Brand *KBC*. *KBC* was perceived by many as the Indian version of the original, *Who Wants to be a Millionaire?* that was broadcasted in the UK for the first time in 1998 [Exhibit-VII].

The show's format was not originally developed for Indian television viewers. It has been observed that we Indians are often not ready to embrace anything concerning the West initially and thus was to an extent true for Brand *KBC*. People had a very good idea about the how to play the game after they viewed the first few episodes

**Exhibit-VII
The Logos**



Source: <http://en.wikipedia.org>

of the show and thus they had virtually nothing more to know about it. The curiosity factor was missing and it was knowledge that dominated esteem so far as the Brand Stature scenario of *KBC* was concerned. It was thus clear that Brand *KBC* had lesser brand vitality

and stature compared to its hosts and thus possessed lesser brand value.

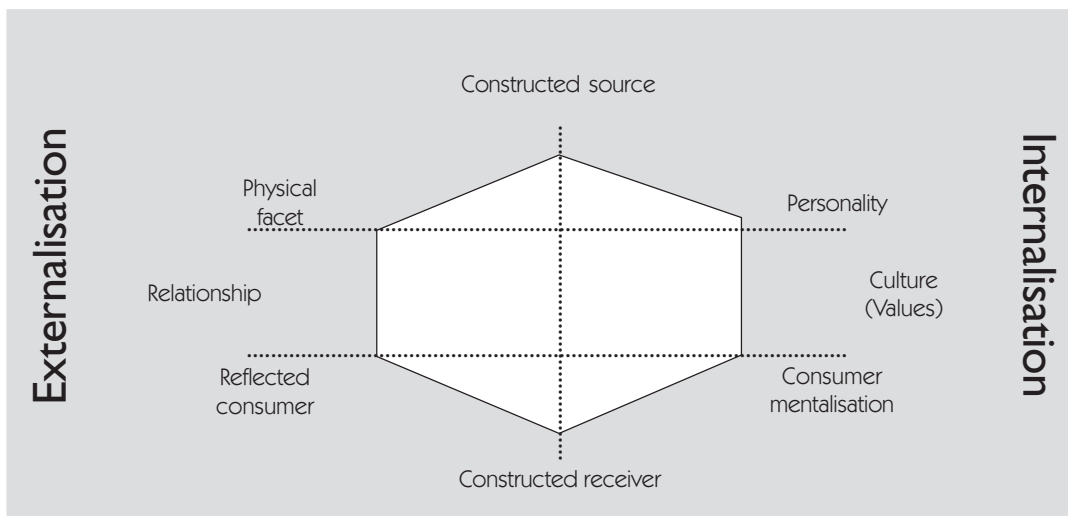
How Are Brand Identities Influenced?

As per the brand identity prism [Exhibit-VIII] suggested by Jean-Noel Kapferer in his book *Strategic Brand Management*, personality forms a critical dimension of the model.

The other dimensions of the prism include:

- ◆ Brand inner values (cultural facet)
- ◆ Brand relationship facet (its style of behavior, of conduct)
- ◆ Brand-reflected consumer facet
- ◆ Brand physical facet (its material distinguishing traits).

**Exhibit-VIII
The Brand Identity Prism**



Source: http://www.12manage.com/methods_kapferer_brand_identity_prism.html

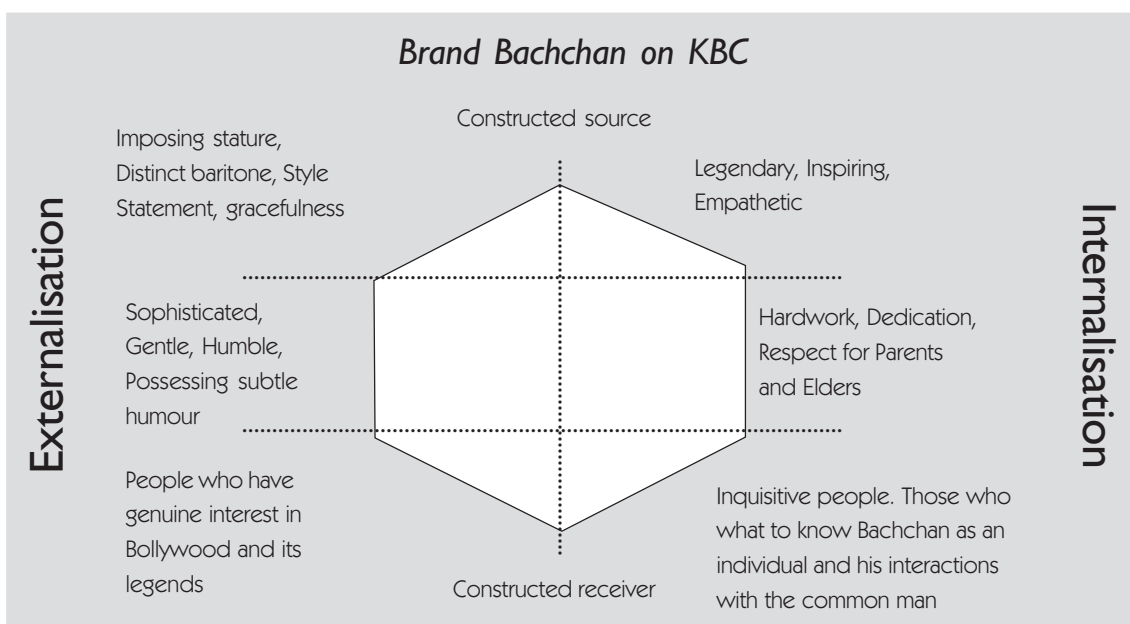
The business-like look and feel of *KBC*, the superlative technology used by the producers to conduct the quiz show and the premium quizzing ambience were the various elements that formed the Brand *KBC*'s physical facet. The professional style of conducting the quiz show along with the intense suspense created before the answers were revealed formed the relationship facet of the brand. People who were witty and who wanted to consistently upgrade their knowledge bank constituted the brand-reflected consumer

facet. Brand *KBC* was a program that believed in breeding knowledge in an engaging manner and this formed its cultural facet. Brand *KBC* possessed the personality of a sincere, competent and sophisticated educator. With Amitabh Bachchan as the anchor of the show, besides the above mentioned personality traits, Brand *KBC* acquired the personality of a legendary, inspiring and empathetic individual. Bachchan was found to empathize with the contestants and he was always there to aid them in taking the best possible

action at a given juncture while they answered the questions. He urged them to take help of lifelines viz. ‘audience poll,’ ‘50-50’ and ‘phone a friend’ whenever they were in doubt and at times even indirectly hinted at the possible answer to a question. Bachchan’s intentions were quite clear. He wanted to make people make the best possible use of the opportunity of grabbing the enviable hot seat. He sincerely wanted the contestants to realize their dreams by winning as much money as possible from the show. Bachchan’s legendary status got translated to Brand *KBC*. *KBC* became one of

the landmark programs in Indian television history mainly because Amitabh Bachchan hosted the show and thus made his first appearance on the small screen. Potential contestants were inspired to participate in *KBC* not just to meet a legendary personality like Amitabh but also to win big like many other contestants and thus realize their own dreams. If we take a closer look at how Bachchan influenced the overall identity of Brand *KBC*, we find that Brand Bachchan not only made an impact on the personality facet of *KBC* but also on other critical facets that constituted its identity [Exhibit-IX].

Exhibit-IX
How Brand Bachchan’s Identity Impacted *KBC*’s



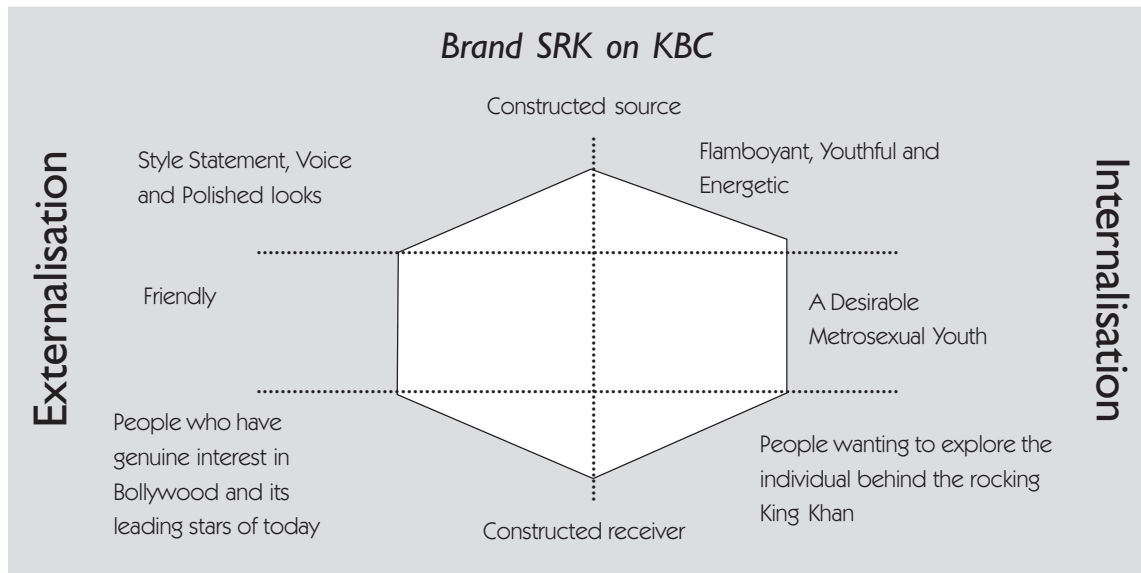
Compiled by the author

Bachchan’s imposing stature and his distinct baritone became an integral part of Brand *KBC*’s physical facet. His sophisticated and gentle ways of conducting the show along with an impressive dose of humor were some additional elements that constituted the relationship facet of *KBC* as a brand. The brand-reflected consumer facet comprised not only those who were genuinely interested in witty quizzing but also those who were interested in Bollywood and were curious to discover the individual behind the legendary cine star, Amitabh Bachchan. Besides breeding knowledge in an engaging manner, hard work, dedication and genuine respect for parents and elders became an integral part of Brand *KBC*’s inner values. Many times, it was noticed that when contestants requested Bachchan to perform something that was related to his film career, he subtly avoided doing the same but

when asked to recite something from Madhushala, a famous poem by Harivansh Rai Bachchan (Amitabh’s father), he took pride in doing so.

Due to Bachchan’s illness, when he was replaced by Shah Rukh Khan as the host of *KBC*, the audience found it hard to accept it and questioned the prudence of the strategy. This happened because as a brand, Bachchan had created well-defined differentiation for himself. But then, SRK brought with him certain distinct traits that refreshed the personality traits of Brand *KBC* which audience started liking soon. SRK’s flamboyance, youthfulness and energy got translated to *KBC* [Exhibit-X].

Exhibit-X
How SRK's Traits Influenced Brand KBC's Identity



Compiled by the author

If the first and second edition of *KBC* appealed more to the 40+ generations, the third edition appealed to the teenagers and youth. As a youth icon, SRK was able to establish an instant connection with them. Today's youth have been found to use English words in their daily life involuntarily many a times and so instead of the famous *Lock Kiya Jaaye*, *Freeze It* was what the contestants were asked to say when they wanted the computer to reveal the answer to a particular question. Another word extremely popular and exciting among the youth is 'kiss' and so the *Khelo India Saath Saath* was repeatedly mentioned by Shah Rukh as *KISS*. This was supplemented by flying kisses to the audience by the super star. SRK's act of providing the thinking cap to the contestants when they asked for it was another vivid instance of how flamboyant and energetic traits of 'King Khan' became a part of Brand *KBC*'s personality. The *Karle Karle* song to which Shah Rukh performed like a rock star in the very first episode of *KBC 3* further enhanced the youthful and vibrant personality of *KBC*. His polished looks and style statement caught the imagination of young ladies who are one of SRK's biggest *aficionados*. SRK's metro-sexual influenced Brand *KBC*'s physical facet. With SRK, it was not just the intense suspense that was there before the answers got revealed but also the friendly way of conducting the show constituted the relationship facet of *KBC* as a brand. Each time a contestant

was briefed about the lifelines available to him or her, Shah Rukh made it a point to mention himself as one of them when he said, *Main Hoon Na*. He addressed most of the contestants by their first name just as a friend. Whenever any contestant wanted to leave the show without risking the prize money they won, SRK asked them to say *Shah Rukh, Mujhe Gale Laga Lo* instead of *I want to Quit* which was the norm when Bachchan conducted the show.

As was the case with Bachchan, the brand-reflected consumer facet comprised not just those who were interested in quizzing and adding value to their knowledge bank but also those who were interested in Bollywood and its leading lights and were curious to know more about SRK, the individual behind the super star. The metro-sexual values of the super star became part of the cultural facet of Brand *KBC*. As a desirable metro-sexual youth, one is expected to enjoy life to the fullest, work hard, party harder but then maintain certain ethics in life and respect his or her cultural origin. A desirable metrosexual youth has been found to imbibe anything from the west that is good for him, that will take him further in life with his head held high but will discard the rest that will make him feel ashamed and cause inconvenience and discomfort to the society. Shah Rukh as an individual was perceived to be just that and this characteristic of his influenced Brand *KBC*'s cultural facet.

We thus find that in the arena of reality shows, the identity of a power 'program brand' with lesser vitality and stature gets influenced by the brand identity components of the power 'personality brand' possessing more brand value. The reverse is also true as was found in the case *Indian Idol*, the Indian version of the UK-originated reality music show, *Pop Idol*. *Indian Idol* did not feature any power brand as its host. Many believed that its hosts were not even well recognized brands. Coming to its jury members viz. Anu Malik, Farah Khan or Sonu Nigam, though each of them was a power brand but then none could match the brand asset value possessed by Bachchan or SRK and so we found that the image, character and essence that it the show imbibed from its foreign counterpart got replicated in the Indian version through its hosts and jury. The way it was conducted, the way jury members passed their comments on the performance of contestants were all very much in tune with what the foreign version of the program showcased. Thus in case of *Indian Idol*, the power 'program brand' altered the identity of power 'personality brands' in the show.

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Total Quality Management in Practice

Mostafa Moballeghi



In recent years, Total Quality Management (TQM) has received worldwide attention and is being adopted in many industries, particularly in developed economies. TQM may be viewed functionally as an integration of two basic functions, i.e. total quality control and quality management. The theories developed by Deming, Juran, and Crosby show that there are somewhat different ideas of how total quality management should be implemented into an organization. This paper describes requirements for the successful implementation of TQM and concludes that, TQM should be purpose-oriented: it should be used because an organization's leaders feel a need to make the organization more effective. If TQM is introduced without consideration of real organizational needs and conditions, it will be met by skepticism on the part of both managers and workers.

Throughout the 1950s, "Made in Japan" was synonymous with poorly made products. Today the phrase means the exact opposite. Japanese quality, technology and ingenuity are much sought after by consumers throughout the world. The primary source of their success is the implementation of total quality management in every walk of life.

In recent years, Total Quality Management (TQM) has received worldwide attention and is being adopted in many industries, particularly in developed economies. TQM has evolved primarily because of the changes in the global economy and also because of demand in market forces. Although quality control has

been practised in many industries for several years, the adoption of TQM as a major pre-occupation of businesses worldwide is very recent. The traditional control methods being implemented in industries to ensure quality have not yielded the results that were expected of them. Furthermore, rapidly changing technology and customer expectations have already affected organizations worldwide and thus have promoted the need for taking a new look at quality management.



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TQM is a visionary movement, which represents a final recognition of a management philosophy that encourages employees to share responsibility for delivering quality services and products. TQM is not a

system; it is, rather, a "state of mind, both collectively and individually." When implemented effectively, TQM empowers all people in an organization to do their best and fully satisfy all customers' needs. It is different from other philosophies because its focus is not only both broad-based and long term in perspective, but it can also produce specific, rapidly implemented value gains as part of an integrated corporate strategy. Commitment from the top as well as a willingness to transform an organization from the bottom up is essential for effective implementation.

TQM: The Key Concepts

TQM may be defined as a continuous quest for excellence by creating the right skills and attitudes in people to make prevention of defects possible and satisfy customers/users totally at all times. TQM is an organization-wide activity that has to reach every individual within an organization. Oakland (1989) has defined TQM as follows: Total Quality Management (TQM) is an approach to improving the effectiveness and flexibility of business as a whole. It is essentially a way of organizing and involving the whole organization every department, every activity, every single person at every level.

TQM is regarded as an integration of various processes characterizing the behavioural dynamics of an organization. For this, an organization is referred to as a total system (socio-technical), where all the activities carried out are geared towards meeting the requirements of customers with efficiency and effectiveness. Zaire and Simintiras (1991) have propounded this viewpoint by stating: Total Quality Management is the combination of the socio-technical process towards doing the right things (externally), everything right (internally) first time and all the time, with economic viability considered at each stage of each process.

TQM has been based on the quest for progress and continual improvement in the areas of cost, reliability, quality, innovative efficiency and business effectiveness. Pfau (1989) states that TQM is an approach for continuously improving the quality of goods and services delivered through the participation of all levels and functions of the organization. Tobin (1990) views TQM as the totally integrated effort for

gaining competitive advantage by continuously improving every facet of organizational culture. Deming (1982) provides an operational definition of TQM, which gives a motivational meaning to the concept. Sink (1991) states that TQM can be successful only if the operational definition is translated into strategies by the leadership of the organization and which are crystallized into actions and communicated to all the people with conviction and clarity.

However, TQM may also be viewed functionally as an integration of two basic functions, i.e. total quality control and quality management. Quality has been defined in a variety of ways (Garvin, D.A. 1986), such as "fitness for use;" "conformance to requirements;" "the amounts of un-priced attributes contained in each unit of priced attributes," among many others. Total quality control is a long-term success strategy for organizations. Customer satisfaction, employee satisfaction, product quality assurance in all its stages, and continuous improvement and innovation, are the main ingredients of total quality control; whereas quality management is a way of planning, organizing and directing that will facilitate and integrate the capabilities of all employees for continuous improvement of anything and everything in an organization to attain excellence. Thus, TQM in an organization brings all the people together to ensure and improve product-process quality, the work environment and working culture.

Oakland (1990) depicts TQM as a pyramid representing five distinct components—management commitment, customer-supplier chain, quality systems, Statistical Process Control (SPC) tools and teamwork. The customer-supplier chain forms the top of the Oakland pyramid. It reflects process ownership, process management and process improvement, propelled throughout the customer-supplier chain. Sohal *et al.* (1989) have explained that the continuous improvement in quality has to come from an integrated approach of controlling quality via action plans in different operations of the business cycle. They have identified five elements such as customer focus, management commitment, total participation, statistical quality control and systematic problem solving. Zaire (1991) has mentioned that TQM can be formulated in terms of the three important aspects of continuous improvement, value-added management and employee involvement. Price and Gaskill (1990) have identified three dimensions of TQM. They are:

- ◆ *the product and service dimension*: the degree to which the customer is satisfied with the product or service supplied;
- ◆ *the people dimension*: the degree to which the customer is satisfied with the relationship with the people in the supplying organizations;
- ◆ *the process dimension*: the degree to which the supplier is satisfied with the internal work processes, which are used to develop the products and services supplied to the customers.

According to Feigenbaum (1990), in an increasingly competitive world quality is no longer an optional extra; it is an essential business strategy for survival.

Implementation of TQM

A drawback of much of the research is a lack of a theoretical framework of TQM implementation, to assist in comparing the various approaches studied. The theories developed by Deming, Juran, and Crosby show that there are somewhat different ideas of how total quality management should be implemented into an organization. The processes which each guru used while identifying factors of TQM were different in each case.

Sink (1991) has suggested the following approach to the design, development and implementation of TQM:

- Stage 0*: understanding the organizational system.
- Stage 1*: developing a strategic plan for the TQM effort.
- Stage 2*: planning assumptions.
- Stage 3*: specifying strategic objectives.
- Stage 4*: specifying tactical objectives.
- Stage 5*: implementation planning.
- Stage 6*: project management.
- Stage 7*: measurement and evaluation.
- Stage 8*: evaluation, accountability, follows through, ensuring effective implementation.

Many TQM activities in Asia were started in private companies as Total Quality Control (TQC). These were mainly Japanese companies with investments in manufacturing plants throughout Asia. The TQM initiatives were first set by the Confederation of

Indian Industries (CII) in the early 1980s, in its pioneering effort in promoting awareness about quality among Indian industries.

Chan and Quazi (2000) have conducted a comparative study of quality management practices at a national level in nine Asian countries including India, from 1960 onwards. Quality Control Circles (QCCs), which worked well in Japan, were first adopted as the quality improvement practice. Between 1970s and 1980s, these countries had very active QCC activities. As more complete quality management systems were developed, TQM (late 1980s) and ISO 9000 (1992) widely accepted in these countries. India had National Productivity Council as early as 1958 and the country has one of the oldest standards institute in Asia. Although product quality was important, QCC was not a major quality initiative in India.

Misra, (2003), had another study on the effectiveness of TQM initiatives in Indian organizations with attention to Agfa-Gevaert company's success in total quality. The multinational company, Agfa-Gevaert, with its branch in India, has a firm belief that "total quality management" (TQM) aimed at continuous efforts to control and improve their services, company processes. The company recognizes total quality as a major component of its worldwide strategy. Similar success stories of TQM implementation are many - Xerox, Motorola, Milliken, Nucor Steel, to name a few. But sadly, there are only a few Indian companies successfully implementing TQM. Why are Indian companies not able to replicate the success of these Western Corporates?

In order to find reasons for this poor show in quality, the TQM Cell of SRF Ltd. conducted a study on the effectiveness of TQM initiatives in Indian organizations. At least 26 companies were researched and some interesting findings emerged. All the organizations started their TQM initiatives in their factories. It seems to be the most logical place to start from. But most organizations do not get much benefit out of this approach. One FMCG Company started their TQM effort in their manufacturing unit. Two years later they found that there was no significant impact on their market share due to the initiative.

Iyer and Seshadri (2004), illustrate quality improvement by focusing on one company in India, Rane Brake Linings (RBL). RBL is a division of the Rane group, an automotive components company with a sales turnover of \$131 million and 4600 employees. In 2002, RBL won the prestigious Deming prize. The

Deming prize, awarded by the Japan Union of Scientists and Engineers (JUSE), was the culmination of a three-year journey for RBL, which began with a visit by professor "Tsuda" from Japan. RBL's TQM journey began with the choice of professor "Tsuda" as their coach in 1999.

RBL decided to focus on Policy Deployment and Daily Routine Management (DRM) to achieve their TQM implementation. As a result, RBL redefined its management of processes for New Product Development System, Manufacturing Quality, Supplier Quality and Customer Quality.

Nath, et al, (2003), have conducted a study regarding the cost of quality (COQ) and TQM implementation among Indian industries. The analysis showed that TQM implementation in Indian industries is a recent and growing phenomenon. There is a lack of awareness among companies about the use of TQM in other companies at the national level.

Restraining Forces

Many organizations in industrialized nations have found that successful introduction and sustenance of TQM can be elusive. A survey conducted by the Forum Corporation of 685 executives who initiated TQM indicated that, in spite of considering customer satisfaction as the top priority by most organizations, many have not gone past the TQM awareness stage and thus have failed to achieve the desired purpose (Cherkasky, S.M. 1992). Some studies show that TQM implementations fail in about 70 per cent of US firms (Newhard, S. 1992). Several factors account for the dissipation of the TQM effort in industrialized countries. These include a lack of sufficient involvement and commitment of senior executives in the TQM effort; limiting TQM implementation only to selected activities and not using it throughout the organization; expecting quick results; failure to accept the culture change required for successful TQM implementation; not committing sufficient resources; failure to tailor the process to the specific situation; and failure to empower individuals and teams (Chang, R. 1993 and Doyle, K. 1992).

Requirements for the Successful Implementation of TQM

TQM "is an approach to doing business that attempts to maximize the competitiveness of an organization through the continual improvement of the quality of its products, services, people,

processes, and environments" (Goetsch, D., Davis, S. 1995). It is a customer-oriented management system, which seeks to meet or exceed customer expectations by providing defect-free goods or services the first time, on time, all the time. Although the ultimate goal is to satisfy external customers, TQM recognizes that it will be difficult to satisfy external customers without meeting the requirements of internal customers as well. Therefore, it seeks to meet or exceed the expectations of both internal and external customers.

In TQM, the search for improvement is a never-ending process. Thus, when the initial goals are met, newer and higher goals are set. Seeking to achieve incremental improvements continuously is the cornerstone of TQM. The continuous search for improvement requires the full participation and involvement of all stakeholders of the organization, including managers, employees, suppliers and customers. Particularly significant is the buy-in by employees, without whose support the TQM effort would be fruitless. Partnerships must also be forged with suppliers. In TQM, collaboration through team effort among workers and departments is encouraged, and quality improvement becomes everyone's responsibility. In organizations where the TQM culture is well established, the manager's role changes from being an administrator and controller to that of coach and facilitator.

The basic principles of TQM are applicable in any organization, whether manufacturing or service, public or private. Properly designed and implemented, TQM can help private firms to attain competitiveness both in domestic and international markets, and it can enable nations to achieve their economic growth objectives. In view of the fact that TQM introduction involves a major change in organizational culture and structure, its implementation process should be adapted to the specific situation based on the objective assessment of the external and internal environment in which a firm operates. Even though the implementation process should be tailored to each organization's specific situation, however, there are certain necessary conditions for the successful implementation of TQM. These basic requirements are highlighted below:

Top Management Support and Commitment The degree of support and commitment by top management is critical for TQM success. Top management must show unwavering support to quality and excellence, and must promote the effort aggressively in order to ensure support among middle managers and workers.

A true test of management commitment lies in the amount of resources (time, money, people) that it is willing to allocate to the TQM implementation effort. Top management's willingness and commitment to accept such change can inspire the entire organization to embrace the TQM process.

Long-term Orientation and Persistence TQM is a long-term-oriented process, which demands persistence and patience. It is not a quick fix and it often takes a long time before its impact can be known. Unwavering management support and its persistent guidance are needed in order to steer the organization towards successful TQM implementation.

Customer Orientation The customers' needs and expectations must be carefully and continuously assessed and understood, and every effort must be made not just to meet those expectations but also to exceed them. This applies both to internal and external customers.

Employee Involvement TQM success is unthinkable without the full and active involvement of all employees. Workers should be encouraged to utilize their latent innovativeness and creativity, and should be empowered to make their own decisions in matters related to their specific work.

Training Thorough, continuous training is a must if the TQM effort is to succeed. The training offered should include group dynamics, problem solving and task skills training.

Teamwork While individual effort is recognized in TQM, the emphasis is on teamwork. Co-operation among departments and employees is a necessary ingredient for TQM success. Hence, employees must be well-trained in group dynamics and in becoming effective team players. The objective must be to develop a sense of interdependence and a sense of shared purpose. Teams must be empowered to introduce incremental improvements, which will have a significant impact on the organization as a whole.

Reward and Recognition System A good TQM system will have built-in mechanisms for motivating and recognizing individual employees as well as teams. Top management must reward both superior effort and superior results. The reward system must be relevant, meaningful and consistent with the TQM philosophy. For example, it should be designed in a manner that fosters co-operation and teamwork, and discourages

destructive competition among workers and departments. Well-designed reward systems help to sustain the change process for a long time. For such reward systems to have a lasting effect, however, they must be integrated with the overall organizational effectiveness and training programmes.

Communication TQM seeks to change the established organizational culture. Top management should be sensitive to this fact and should strive to allay the fear and doubt that many members of the organization may have about TQM by instilling trust and assurance. A useful approach for overcoming these problems is a regular flow of clear and accurate two-way communication between management and workers. Such communication should include explaining the time frame for expecting visible benefits from the TQM system, short-term objectives and long-term goals, and sharing of success stories.

Measurement In TQM, measurement is needed to determine where the organization has been and how much it has improved. Measurement is also essential to identify customer needs, to perform statistical analysis and to monitor progress. Another important purpose of measurement is to make errors visible so that their causes could be identified and eliminated.

Partnerships Management should establish strong partnerships not only with employees but also with customers. Long-term relationships should also be sought and developed with suppliers to ensure a reliable supply of high-quality parts and components.

TQM's Acceptability

TQM is receiving global acceptance and every organization tries to follow and implement TQM. However, Sink (1991) feels that this rush to show the world that the TQM philosophy is being practised by organizations is made without proper understanding of TQM. Dale and Lightburn (1992) also claim that not all companies are willing to embrace the fundamentals of TQM. It is argued that there is a considerable number of companies who are using all the popular quality management tools and techniques; however, these techniques, procedures and systems are used in a superficial manner. The main reasons for such a situation are lack of management commitment to the basic principles of TQM and quality improvements and ineffective leadership to direct the improvement process.

The study carried out by Lewis (1992) to compare the attitudes of Spanish and American quality assurance managers reveals that many of the responses of both groups were incompatible with TQM principles. The general conclusion reached is that managers from both countries must be further educated in TQM principles.

A survey carried out by Singh (1991) to assess the status of TQM in India revealed that only 39 companies out of 1,000 surveyed are practising TQM to some extent. However, it concludes that these organizations are not able to distinguish between TQM and quality control.

Conclusion

In recent years, organizations have begun to realize that TQM is the way forward to achieve long-term business success. Many organizations have found it difficult to implement an effective TQM policy. One of the prime reasons for this is that organizations fail to identify what they are attempting to change and achieve by implementing TQM. If these factors are not addressed then the necessary resources and commitment required to develop an effective tailored approach may be lacking. A full implementation of TQM, represent a significant change in the culture and political economy of an organization, and a comprehensive change strategy is therefore required. Implementing TQM essentially involves organizational transformation: beginning to operate in new ways, developing a new culture. This also includes redesigning other systems. Leadership is a key element in successful implementation of large- scale change.

Finally, TQM should be purpose- oriented: it should be used because an organization's leaders feel a need to make the organization more effective. It should be driven by results and not be seen as an end in itself. If TQM is introduced without consideration of real organizational needs and conditions, it will be met by skepticism on the part of both managers and workers.

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Indian Context: Bonus Issue And Share Price

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The relationship between Bonus issues (also known as stock dividends and scrip issues) and share prices has been the subject of much empirical discussion within the finance literature. Empirical research has shown that the market generally reacts positively to the announcement of a bonus issue/stock dividend. This study investigates impacts on prices of bonus issues around announcement dates using daily return in India with the help of Market Adjusted Excess Return Model (Balachandran and Sally (2001)). It also investigates the impact of bonus ratio on price behaviour so as to find whether large size bonus issues have more information content than small size issues. This is an area not yet explored in India. This study is limited to Indian companies, which offered bonus shares from January 2004 to March 2005. We collected information about 54 bonus issues of 50 companies listed in BSE. In Event study method, it considered 1st day, 2nd day, 3rd day, 7th day, and 14th day which commences after the announcement dates, as event dates. Employing market adjusted return model, it found support for signaling theory, that the declaration of bonus issues convey favourable information about the future earnings to the investors. We found a cumulative abnormal return of 5.9 per cent (mean MAER 1.97 per cent) around three days of bonus announcement. Price analysis based on industry and supported by ANOVA shows that industry does not influence short-term price behaviour and it may influence long-term price behaviour. But analysis of influence of ratio of buy back on share price behaviour found that either the ratio of bonus issue does not convey any signal about future performance of firms to investors or investors do not consider it as a factor to be considered.

Relationship between Bonus issues (also known as stock issues and scrip issues) and share prices has been the subject of much empirical discussion within the finance literature. Empirical research has shown that market generally reacts positively to the announcement of a bonus issue/stock dividend (see for example, US - Foster and Vickrey (1978), Woolridge (1983), Grinblatt et al (1984), and McNichols and David (1990); Canada – Masse et al (1997); NZ- Anderson et al (2001); Sweden – Liljebloom (1989). The hypothesis that has received strongest support in

explaining the positive market reaction to bonus issue announcements is signaling hypothesis, which suggests that ‘the announcement of a bonus issue conveys new information to the market in instances where managers have asymmetric information.’ This hypothesis has received almost unequivocal support with few exceptions [for example, Papaioannou et al (2000)].

This article is divided into five sections. Second section, review of literature narrates previous studies conducted and the need of





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this study. In section three, methodology is explained in detail along with hypothesis. Section four interprets results and five concludes the study.

Review of Literature

Past academic researches show significant increase in the stock prices towards the announcements of Bonus Issues. Ball, Brown and Finn (1977) the oldest study, which, we were able to trace, investigated stock price reaction around announcement of bonus issues, stock splits and right issues in Australia for a period between 1960 and 1969 using monthly data. They found 20.2 per cent abnormal return for 13 months up to and including the month of bonus issue announcements. Foster and Vickrey (1978) were among the earliest to examine the signaling hypothesis using daily returns data and in their examination of the information content of 82 stock dividend announcements, they found significant positive abnormal returns around the announcement dates.

Woolridge (1983) found 0.986 per cent positive average abnormal ex date returns for a sample of 317 stock dividend and postulated that the ex date effect could arise from market imperfections such as taxes and odd lot transaction cost. Grinblatt, Masulis and Titman (1984) provide empirical evidence among US firms indicating that stock prices, on average, react positively to stock dividend and stock split announcements. Eades, Hess and Kim (1984) report significantly positive ex date returns by companies listed on the New York Stock Exchange during the period 1962-1980 for a sample of 2110 Bonus Issues and Stock Splits.

Doran and Nachtmann (1988) using a sample of 879 firms which issued bonus shares and 898 firms that announced stock splits between 1971 and 1982 found that immediately after the announcement of a bonus issue there was a significant positive revision in earnings expectations similar to attention getting hypothesis. Lijleblom (1989) investigated the signaling hypothesis by examining stock price reaction to stock dividend for firms that also released simultaneous releases of past earnings. Findings indicated significantly greater positive price reaction for the stock dividend-paying group than for the control group, which was interpreted as support for the signaling hypothesis in the presence of contaminating announcements.

Mc Nicholas and Dravid (1990) find a positive relationship between stock dividend factor and the announcement related

abnormal return providing evidence that is consistent with a signaling explanation for stock dividends. Obaidullah (1992) documents positive stock market reaction to equity bonus announcements. He found evidence to support the semi strong form that is efficient market hypothesis. Jegadeesh et al (1993) show that stocks with high returns over a given time period (of 3 to 12 months) continue to outperform the stocks of firms with lower past returns during the same period. A Canadian study by Masse et al (1997), investigating the impact of Stock Dividend announcements on the value of firms listed on the Toronto Stock Exchange, found significant and positive abnormal returns around the announcement date.

There are few Indian studies, which are noteworthy in mentioning. Rao (1994) estimated cumulative abnormal return of 6.31 per cent around the three days of Bonus announcement. He reported that Indian stock market responds in an expected direction to corporate announcement and it supported the semi strong form of efficient market hypothesis.

Jijo and Rao (2005) while analyzing the post bonus issue performance statistically found significant positive abnormal return of 11.6 per cent for five days. A.K.Mishra (2004) found significant positive abnormal returns for a five-day period prior to bonus announcement within the developed stock markets; the results provide stronger evidence of semi strong market efficiency of the Indian stock market. Contrary to above Rao and Geetha (1996) analyzed Bonus announcement and concluded that one could not make excess money in the stock market by studying that patterns of abnormal returns of announcements made earlier.

As mentioned, this present paper extends the earlier work done by various researchers to current period by investigating the impacts on prices of bonus issues around announcement dates using daily return in India. While the other studies have been done only till 2003 to 2004, this study considers companies which issued bonus shares during 2004-05. The contribution of this study is that, it evaluates the daily returns and daily market adjusted excess returns of each stock price on each event window. This study makes extensive use of the Market Adjusted Excess Return Model proposed by Balachandran and Sally (2001). Further, it investigates the impact of bonus ratio on price behaviour so as to find whether large size bonus issues have more information content than small size issues.

Research Design

Hypothesis

We hypothesize that the companies in our sample will experience positive announcement period abnormal returns on the basis that these announcements convey favourable information regarding the company's future prospects to less informed market (see for example, Foster and Vickrey (1978), Woolridge (1983), Grinblatt et al (1984), McNichols and Dravid (1990) and Anderson et al (2001)). Further it is hypothesized that announcement period abnormal returns will be positively related to bonus issue size. One rationale for expecting abnormal returns to increase with the size of the bonus issue is due to the fact that large size bonus issues may have more information content than small size issues. Prior studies have reported that announcement period abnormal returns are significantly correlated with the size of bonus issues [See for example, McNichols and Dravid (1990), and Doran and Nachtman (1988)]. So following hypothesis is formulated for further investigation.

H1: Companies undertaking bonus issues will experience positive announcement period abnormal returns.

H2: Positive abnormal period returns are same for all type of industries

H3: Announcement period abnormal returns will be positively related to the size of the bonus issue

Samples and Selection

This study was limited to Indian companies, which offered bonus shares from January 2004 to March 2005. Names, issue dates and other relevant information of such companies are collected mainly from Capital Line database and also from various newspapers. We were able to collect information about 54 bonus issues of 50 companies listed in Bombay stock exchange and these companies are categorized into seven groups based on industry they belong. (See table 1 and annexure 1) Closing Stock price is considered as the share price of each company.

Table 1
Sample Details

Sl. No.	Industry	No. of bonus offers	Percentage
1	Automobile	6	11.1
2	Banking & Finance	5	9.3
3	Chemical, Paints & Glasses	6	11.1
4	Electrical, Telecommunication & Engineering	8	14.8
5	Information Technology	11	20.4
6	Pharmaceutical	10	18.5
7	Others including Diversified	8	14.8
	TOTAL	54	100

Procedure

We followed event study method. The event date is supposed to be the date when the event occurs and in this study the event date is the date of announcement of Bonus Issue. Event Window is the

period beginning immediately after the occurrence of the event and continuing out for some identified period of time. This study considers 1st day, 2nd day, 3rd day, 7th day, and 14th day, which commence after the announcement dates, as event dates.

Daily return of a security (firm) at a particular date, $R_{i,t}$ is computed by using formula

$$R_{i,t} = \frac{P_{it} - P_{i0}}{P_{i0}}$$

Where,

P_{it} = Price of the stock I on day t.

P_{i0} = Price of the stock I on day 0.

This study also used Market Adjusted Excess Return (MAER) model, proposed by Balachandran and Sally (2001) for finding the return. The purpose of using the formula is to overcome the limitations of the first formula that price variations (return also) after the bonus issue may not be only due to the impact of the same; it may be due to market changes also. A Market Adjusted Return of each company on each event window is computed by deducting the market return from each days return by using BSE 500 market index as proxy. This formula is considered as more appropriate while analyzing the price behaviour due to the change in corporate activities and was applied by others¹ (Singh and Mittal 2003). The formula is as follows.

$$MAER = \frac{P_{it} - P_{i0}}{P_{i0}} - \frac{M_t - M_0}{M_0} \times 100$$

Where,

MAER = Market Adjusted Excess Return

P_{it} = Price of the stock I on day t

P_{i0} = Price of the stock I on event day

M_t = BSE 500 Market Index on day t

M_0 = BSE 500 Market Index of the Event day.

Analysis and Discussions

Announcement Effects

Table 2 reports the daily returns generated by the non-market adjusted excess returns for the announcement date (day 0), to day after the announcement date (from day 0 to day 1, to 2, to 3, to 7 and to 14). Mean returns for the initial sample of all bonus issue announcements are 2.45 per cent on day 1, 1.90 per cent from day 0 to day 1, 0.79 per cent from day 0 to day 3, 0.37 per cent from day 0 to day 7 and 1.85 per cent from day 0 to day 14. Employing the market adjusted return model, similar positive results are found, but greater than non-market adjusted return and are significant at the one per cent level. (See table 2 and full details annexure 2 and 3). This findings support the signaling theory, that the declaration of bonus issues convey favourable information about the future earnings to the investors. Supporting Obaidullah (1992) and Rao (1994), we also find a positive abnormal reaction on equity bonus announcements. We found a cumulative abnormal return of 5.9 per cent (mean MAER 1.97 per cent) around three days of bonus announcement.

Table 2
Return (%)

Type	Functions	Day 1	Day 2	Day 3	Day 7	Day 14
Return	Mean	2.45	1.90	0.79	0.37	1.85
	Standard Deviation	9.84	10.89	11.83	14.67	18.65
MAER	Mean	3.01	1.86	1.03	0.41	2.06
	Standard Deviation	11.12	10.64	11.30	14.26	17.86

Industry Analysis

Table 3 narrates mean return and MAER (also standard deviation) industry wise in each window days. In 'Automobile industry' a positive return as well as MAER is reported in all the windows. MAER is more in 14th day compare to other days. Similar result is

found in 'Electrical and Electronics industry' where the highest return is on 14th day. In 'Pharmaceutical industry,' except one day, the return as well as MAER is positive and highest return is also on 14th day. These findings support the signaling theory that the declaration of bonus issues conveys positive information.

Contrary to this, return and MAER are found changing in other industries. In 'Chemical and related industry' in day 1, day 2 and day 3 return is positive (but it is decreasing) and MAER is found positive only on 1st day and 14th day. Similar to the previous conclusion maximum return is found on 14th day. In 'Information Technology industry,' return is negative in 3 windows, while MAER is positive in all the windows, maximum at 14th day. An explanation to this could be that market return is more than the industry return.

In 'Banking and Finance' industry and 'Others and Diversified' industry, negative result (return and MAER) is found in almost all the windows which are contrary to the previous comments. It shows that bonus issues of companies under this industry do not provide favourable information to investors.

Table 3
Return Industry-wise (%)

Industry	Type	Functions	Day 1	Day 2	Day 3	Day 7	Day 14
Automobile	Return	Mean	2.38	3.90	1.76	0.04	1.27
		S.D.	2.32	4.08	2.25	-0.29	0.35
	MAER	Mean	6.81	12.37	11.44	11.02	14.11
		S.D.	11.12	10.64	11.30	14.26	17.86
Banking & Finance	Return	Mean	-0.67	-2.62	-4.04	-6.83	-6.51
		S.D.	1.41	2.40	4.17	3.59	8.79
	MAER	Mean	-1.02	-2.88	-3.44	-6.23	-7.04
		S.D.	1.81	2.45	3.33	3.64	9.30
Chemicals, Paints and Glass	Return	Mean	1.07	0.90	0.82	-0.65	1.07
		S.D.	1.47	2.88	2.75	7.21	12.11
	MAER	Mean	0.96	-0.58	-1.69	-1.61	2.85
		S.D.	0.81	2.47	2.13	5.79	11.71
Electrical, Telecommunications & Engineering	Return	Mean	11.65	11.32	11.54	14.93	24.54
		S.D.	22.66	22.10	24.94	30.82	35.81
	MAER	Mean	15.65	10.75	11.07	13.67	20.83
		S.D.	25.04	21.76	24.37	30.86	36.20
Information Technology	Return	Mean	1.28	0.07	-1.49	-1.13	-5.60
		S.D.	2.69	2.47	4.86	9.52	11.35
	MAER	Mean	1.23	0.85	0.28	-0.02	0.26
		S.D.	2.75	3.20	3.09	8.25	8.71
Pharmaceutical	Return	Mean	2.38	3.90	1.76	0.04	1.27
		S.D.	7.31	12.88	11.69	9.33	12.08
	MAER	Mean	2.32	4.08	2.25	-0.29	0.35
		S.D.	6.81	12.37	11.44	11.02	14.11
Others & Diversified	Return	Mean	0.09	-0.48	-1.05	-3.56	-1.16
		S.D.	2.65	3.94	3.83	6.59	6.14
	MAER	Mean	-0.24	-1.29	-1.80	-4.08	-3.65
		S.D.	2.58	3.96	3.90	5.05	6.65

The hypothesis, positive abnormal period returns are same for all type of industries are evaluated by test of Analysis of Variance (ANOVA) and test result is depicted in table 4a and 4b. Null hypotheses of return are same for all type of industry is accepted in cases of normal return for all days except for

day 14. In case of MAER, null hypotheses are rejected in two cases for 1st day and 14th day and accepted in all remaining windows. So it can be concluded that industry does not influence in short term price behaviour and it may influence in long-term price behaviour.

Table 4 a.
ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
r1	Between Groups	847.533	6	141.255	1.551	0.183
	Within Groups	4280.246	47	91.069		
	Total	5127.779	53			
r2	Between Groups	1067.086	6	177.848	1.602	0.168
	Within Groups	5216.381	47	110.987		
	Total	6283.468	53			
r3	Between Groups	1304.838	6	217.473	1.671	0.149
	Within Groups	6115.806	47	130.124		
	Total	7420.644	53			
r7	Between Groups	2196.997	6	366.166	1.869	0.106
	Within Groups	9206.379	47	195.880		
	Total	11403.375	53			
r14	Between Groups	5248.687	6	874.781	3.116	0.012
	Within Groups	13194.478	47	280.734		
	Total	18443.166	53			

Table 4b
ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
maer1	Between Groups	1552.799	6	258.800	2.434	0.039
	Within Groups	4998.315	47	106.347		
	Total	6551.114	53			
maer2	Between Groups	976.830	6	162.805	1.525	0.191
	Within Groups	5017.801	47	106.762		
	Total	5994.631	53			
maer3	Between Groups	1125.227	6	187.538	1.561	0.180
	Within Groups	5646.998	47	120.149		
	Total	6772.225	53			
maer7	Between Groups	1848.285	6	308.047	1.620	0.163
	Within Groups	8936.397	47	190.136		
	Total	10784.681	53			
maer14	Between Groups	3682.250	6	613.708	2.183	0.061
	Within Groups	13215.617	47	281.183		
	Total	16897.866	53			

Impact of Bonus Ratio

The relationship of bonus issue size with price changes and impact of the same are measured by correlation and regression test respectively. Both the tests gave negative results showing size does not matter. (Correlation test result is explained in table 5 and diagram 1). This result is contrary to earlier results

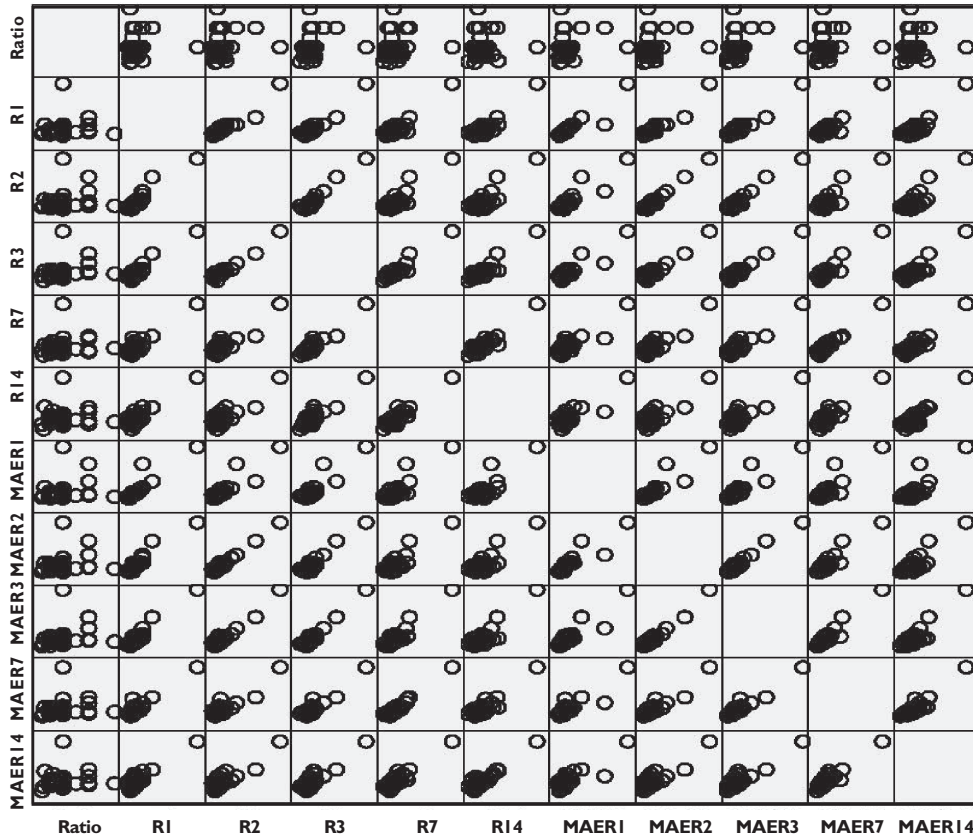
of studies conducted by Mc Nichols et al (1990), Doran et al (1988) and Balachandran and Sally (2001). This may be interpreted in way that either the ratio of bonus issue does not convey any signal about future performance of firms to investors or investors do not consider it as a factor to be considered. A post bonus performance study may reveal the validity of these conclusions.

Table 5
Correlations

	Ratio	RI	R2	R3	R7	RI4	MAER 1	MAER 2	MAER 3	MAER 7
Pearson Correlation	1	.096	.210	.198	.090	.022	.188	.215	.199	.10
G. (2-tailed)		.488	.125	.147	.514	.871	.169	.115	.146	.46
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.096	1	.950(**)	.943(**)	.903(**)	.876(**)	.913(**)	.951(**)	.960(**)	.924(*)
Sig. (2-tailed)	.488		.000	.000	.000	.000	.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.210	.950(**)	1	.971(**)	.887(**)	.849(**)	.902(**)	.985(**)	.968(**)	.904(*)
Sig. (2-tailed)	.125	.000		.000	.000	.000	.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.198	.943(**)	.971(**)	1	.943(**)	.897(**)	.890(**)	.956(**)	.975(**)	.934(*)
Sig. (2-tailed)	.147	.000	.000		.000	.000	.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.090	.903(**)	.887(**)	.943(**)	1	.926(**)	.860(**)	.891(**)	.926(**)	.969(*)
Sig. (2-tailed)	.514	.000	.000	.000		.000	.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.022	.876(**)	.849(**)	.897(**)	.926(**)	1	.824(**)	.846(**)	.871(**)	.900(*)
Sig. (2-tailed)	.871	.000	.000	.000	.000		.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.188	.913(**)	.902(**)	.890(**)	.860(**)	.824(**)	1	.911(**)	.913(**)	.872(*)
Sig. (2-tailed)	.169	.000	.000	.000	.000	.000		.000	.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.215	.951(**)	.985(**)	.956(**)	.891(**)	.846(**)	.911(**)	1	.983(**)	.928(*)
Sig. (2-tailed)	.115	.000	.000	.000	.000	.000	.000		.000	.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.199	.960(**)	.968(**)	.975(**)	.926(**)	.871(**)	.913(**)	.983(**)	1	.956(*)
sig. (2-tailed)	.146	.000	.000	.000	.000	.000	.000	.000		.00
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.100	.924(**)	.904(**)	.934(**)	.969(**)	.900(**)	.872(**)	.928(**)	.956(**)	
sig. (2-tailed)	.469	.000	.000	.000	.000	.000	.000	.000	.000	
	55	55	55	55	55	55	55	55	55	5
Pearson Correlation	.067	.888(**)	.860(**)	.892(**)	.913(**)	.929(**)	.832(**)	.875(**)	.900(**)	.932(*)
sig. (2-tailed)	.625	.000	.000	.000	.000	.000	.000	.000	.000	.00
	55	55	55	55	55	55	55	55	55	5

Significant at the 0.01 level (2-tailed).

Diagram I



Conclusion

This study titled ‘Information content on Bonus issue announcements: Indian evidence,’ analyzed price behaviour of 54 bonus issues of 50 companies listed in Bombay Stock Exchange. Study reveals some interesting but contradicting results. Employing market adjusted return model, it found support for signaling theory, that the declaration of bonus issues convey favourable information about the future earnings to the investors. We found a cumulative abnormal return of 5.9 per cent (mean MAER 1.97 per cent) around three days of bonus announcement. Price analysis based on industry and supported by ANOVA shows that industry does not influence short-term price behaviour and it may influence long-term price behaviour. But analysis of influence of ratio of buy back interpreted in way that either the ratio of bonus issue does not convey any signal about future performance of firms to investors or investors do not consider it as a factor to be considered.

Foot Note

1 Travlos et al (2001) also presented the same method for finding abnormal return where $AR_{j,t} = R_{j,t} - R_{m,t}$ where $AR_{j,t}$ is the abnormal return, $R_{j,t}$ is the return of security j on day t and $R_{m,t}$ is the market return on day t with a underlying assumption that beta for all the firm is one (1).

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Annexure I
Return Per Day of Bonus Issued Companies

Sl. No.	Company Name	R1 (%)	R2 (%)	R3 (%)	R7 (%)	R14 (%)
1	Aarti Industries	1.99	3.81	1.73	-8.83	-10.82
2	Alembic Ltd	19.99	37.86	33.02	22.93	31.89
3	Asahi India Glass Ltd	2.27	1.61	-3.06	-4.90	-3.79
4	Astra Microwave Products Ltd	-4.55	-5.79	-6.20	-4.13	7.02
5	Balkrishna Industries Ltd	4.20	5.70	5.13	6.56	11.89
6	Berger Paints	0.00	-4.17	0.00	0.00	-4.17
7	Carborundum Universal Ltd	5.59	2.49	-3.64	1.72	7.24
8	Dabur India Ltd	2.50	0.06	-1.88	-2.17	-2.67
9	DCM Shriram Consolidated Ltd	1.22	3.30	1.92	-5.06	-4.40
10	FDC Ltd	-3.95	-5.58	-8.01	-5.58	-9.06
11	Federal Bank	1.28	0.77	-0.38	-9.55	-10.31
12	Geodesic Information Systems	-0.08	1.53	2.50	19.57	9.21
13	Geometric Software Solutions	1.01	-1.51	-2.12	1.46	-8.80
14	Glenmark Pharmaceuticals Ltd	9.84	12.77	5.93	0.74	2.42
15	Goodlass Nerolac Paints Ltd	-1.43	-0.65	-1.11	-2.08	-2.91
16	Gujarat Ambuja Cements Ltd	1.61	2.41	2.92	-0.58	4.35
17	Gujarat NRE Coke Ltd	0.68	-2.55	-3.52	-4.20	5.96
18	Havell's India Ltd	3.21	2.67	1.07	1.60	0.53
19	Himatsingka Seide Ltd	-3.38	-5.35	-5.08	-5.28	-10.13
20	Infomedia India Ltd	6.93	0.99	-2.97	-6.93	-2.97
21	Infosys Technology	-2.83	-1.78	-1.79	-1.92	-4.99
22	Ipca Labs Ltd	-1.84	-1.77	-1.82	0.39	1.74
23	ITC	-0.52	0.00	2.14	2.93	8.63
24	Jubilant Organic	2.00	2.39	4.44	12.48	23.75
25	KEC Inti	-0.45	-3.43	-1.51	2.54	12.15
26	Kirloskar Brothers Ltd	10.00	18.01	16.24	17.97	20.40
27	Kotak Mahindra Bank	-0.44	-5.45	-10.65	-10.94	-15.73

Sl. No.	Company Name	R1 (%)	R2 (%)	R3 (%)	R7 (%)	R14 (%)
28	Kotak Mahindra Bank	-0.55	-1.37	-1.62	-4.00	-0.65
29	Mahindra & Mahindra	0.45	-0.15	1.47	6.22	6.22
30	Mahavir Spinning	1.09	-0.36	-1.09	-3.28	-2.55
31	Marico Ltd.	0.28	-2.35	-5.17	-13.41	-4.33
32	Matrix Labs	0.19	0.54	-1.18	-2.66	-6.76
33	Mid Day Multimed	-1.03	-1.92	-13.74	-16.99	-24.67
34	Motherson Sumi	-0.96	-5.14	-9.11	-9.26	-8.42
35	Mphasis BFL Ltd.	1.40	0.00	0.00	-4.90	-14.69
36	Mphasis BFL Ltd.	1.60	-2.40	-3.20	-6.40	-12.80
37	Nucleus Software Exports Ltd.	1.76	2.56	1.40	3.00	-14.76
38	Opto Circuits (I)	9.87	7.24	3.66	5.14	34.06
39	Opto Circuits (I)	4.50	3.15	2.79	0.21	1.26
40	Orchid Chemicals & Pharmacy	-1.05	-1.50	-3.87	-2.55	-3.48
41	Praj Industries	66.45	63.03	71.17	89.52	108.99
42	Sesa Goa Ltd.	4.76	6.88	5.35	8.13	1.45
43	Shanthi Gears	-5.38	-6.03	-8.22	-12.66	-12.36
44	Subex Systems	4.83	5.67	5.83	9.03	15.11
45	Sun Pharmaceuticals India Ltd.	1.89	-0.14	1.66	3.67	2.03
46	TISCO	-3.41	-3.41	-2.93	-8.29	-3.90
47	TATA Investment Corporation	-0.93	-3.16	-1.95	-2.47	5.73
48	Tube Investments Of India Ltd.	-1.88	-6.62	-6.62	-5.82	-4.01
49	Ucal Fuel Systems Ltd.	-0.50	-0.73	-1.01	-0.83	-1.04
50	Unichemicals Laboratories	-0.57	0.25	0.40	-0.46	6.88
51	United Western Bank	-2.69	-3.89	-5.59	-7.21	-11.60
52	Wipro Ltd.	-0.44	-1.95	-1.08	-5.78	-1.95
53	Wipro Ltd.	0.96	-0.37	-1.28	-2.54	-0.26
54	Wockhardt	-3.23	-3.51	-6.66	-13.91	-10.25
	Mean	2.45	1.90	0.79	0.37	1.85
	Standard Deviation	9.84	10.89	11.83	14.67	18.65

Annexure 2
MAER per day of Bonus Issued Companies

Sl. No.	Company Name	R1 (%)	R2 (%)	R3 (%)	R7 (%)	R14 (%)
1	Aarti Industries	0.62	0.76	-1.19	-7.54	-5.48
2	Alembic Ltd.	18.54	36.30	31.40	26.57	33.88
3	Asahi India Glass Ltd.	1.68	0.38	-4.46	-6.14	-6.64
4	Astra Microwave Products Ltd.	-4.59	-6.28	-6.23	-6.87	3.26
5	Balkrishna Industries Ltd.	4.43	5.41	5.35	4.86	8.93
6	Berger Paints	0.27	-5.49	-3.75	-6.07	-5.32
7	Carborundum Universal Ltd.	6.03	4.53	-1.92	0.39	4.87
8	Dabur India Ltd.	1.79	-0.36	-0.26	-3.41	-10.47
9	DCM Shriram Consolidated Ltd.	1.75	4.02	3.04	-3.15	-6.00
10	FDC Ltd.	-1.63	-2.83	-6.84	-8.61	-6.93
11	Federal Bank	0.76	-0.02	-1.17	-6.81	-6.35
12	Geodesic Information Systems	1.77	5.95	4.65	23.20	6.91
13	Geometric Software Solutions	1.18	-1.28	-1.23	0.03	15.09
14	Glenmark Pharmaceuticals Ltd.	8.90	12.87	7.88	4.19	5.14
15	Goodlass Nerolac Paints Ltd.	0.47	-0.60	-1.92	3.20	10.96
16	Gujarat Ambuja Cements Ltd.	0.48	0.42	0.50	0.47	1.00
17	Gujarat NRE Coke Ltd.	-0.34	-3.22	-4.54	-5.68	0.11
18	Havell's India Ltd.	3.23	1.71	1.20	0.51	-3.22
19	Himatsingka Seide Ltd.	-3.43	-6.46	-6.96	-9.98	-14.85
20	Infomedia India Ltd.	7.86	6.72	5.08	-1.19	3.83
21	Infosys Technology	-2.78	-2.19	-2.48	-3.80	-1.79
22	Ipca Labs Ltd.	-2.74	-2.04	-2.71	-3.88	-4.79
23	ITC	-0.90	-1.21	0.29	1.90	6.00
24	Jubilant Organic	2.27	1.07	0.69	6.41	22.60
25	KEC Inti	-0.85	-2.56	-0.74	2.19	7.71
26	Kirloskar Brothers Ltd.	42.51	17.23	15.99	14.93	16.42
27	Kotak Mahindra Bank	-0.46	-4.54	-4.94	-3.99	-7.88

Sl. No.	Company Name	R1 (%)	R2 (%)	R3 (%)	R7 (%)	R14 (%)
28	Kotak Mahindra Bank	-1.10	-1.68	-1.29	-4.25	-2.89
29	Mahindra & Mahindra	-0.20	-0.13	1.99	4.89	2.68
30	Mahavir Spinning	0.71	-1.58	-2.95	-4.32	-5.19
31	Marico Ltd.	0.32	-2.73	-3.74	-9.98	-9.82
32	Matrix Labs	-0.26	-0.82	-1.90	-6.40	-12.99
33	Mid Day Multimed	-1.75	-2.57	-5.56	-7.91	-10.71
34	Motherson Sumi	0.07	-2.28	-3.71	-5.16	-9.15
35	Mphasis BFL Ltd.	1.63	-1.70	-1.64	-5.62	-13.18
36	Mphasis BFL Ltd.	1.57	0.50	0.73	-4.44	-8.43
37	Nucleus Software Exports Ltd.	1.93	2.79	2.30	1.57	9.12
38	Opto Circuits (I)	10.36	5.96	2.32	5.67	29.97
39	Opto Circuits (I)	4.06	2.73	1.38	-0.45	-2.77
40	Orchid Chemicals & Pharmacy	-1.35	-2.28	-4.12	-5.59	-7.47
41	Praj Industries	66.07	61.82	69.32	88.49	106.35
42	Sesa Goa Ltd.	3.90	5.08	4.19	4.13	0.50
43	Shanthy Gears	-4.24	-5.88	-7.14	-7.68	-6.37
44	Subex Systems	2.37	2.29	1.24	1.11	4.43
45	Sun Pharmaceuticals India Ltd.	1.71	3.93	5.89	8.65	11.39
46	TISCO	-3.94	-4.20	-3.72	-5.56	0.06
47	TA TA Investment Corporation	-0.26	-1.99	-1.17	-3.73	3.59
48	Tube Investments Of India Ltd.	0.26	-2.38	-3.49	-1.26	-1.20
49	Ucal Fuel Systems Ltd.	-0.11	-1.18	-2.61	-2.01	-5.24
50	Unichemicals Laboratories	2.96	1.04	1.46	-4.11	3.99
51	United Western Bank	-4.03	-6.16	-8.65	-12.36	-21.69
52	Wipro Ltd.	-0.72	-0.73	0.29	-3.11	-0.67
53	Wipro Ltd.	0.53	-0.40	-0.32	-0.09	-1.77
54	Wockhardt	-4.68	-5.07	-8.28	-10.27	-8.26
	Mean	3.01	1.86	1.03	0.41	2.06
	Standard Deviation	11.12	10.64	11.30	14.26	17.86

Financial Risk Modelling: Thai Testimony

Wantanee Surapaitoolkorn



The studies of quantitative approaches in risk modelling uses in market, credit and operational risk managements are the fastest growing applications in the banking sectors and financial institutes. The Bank for International Settlements (BIS) who supports the rules and regulations for risk management use the so-called BASEL II accord to guide the international banking system for the purpose of maintaining the right quantitative measurement of the risk weighted assets that each Bank needs to maintain and to help banks to implement and manage those risks using more simplified quantitative techniques for the practices of financial risk management. The research of this paper is to review the quantitative approaches used in the financial risk management and provide the new approach of risk models for the future use for the BASEL II accord with the evidence from the Thai financial market.

From the beginning of 20th century, quantitative approaches are used extensively in the areas of risk management particular in the risk modelling for the three major financial risks which are the market, the credit, and the operational risks.

The road of quantitative methodology began with the Value-at-Risk (VaR) model which was first introduced in the technical document *CreditMetrics* produced by J. P. Morgan on 2nd April 1997. The popularity of this model leads the Bank for International Settlements (BIS) agreed to add the model of VaR for the use of market risk to the first BASEL accord 1996. The role of BASEL accord is to help banking sectors to implement and manage risks using more simplified quantitative techniques for the practices of financial risk management.



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The simplest quantitative methods for measuring risk involve the content of pure mathematics like calculus and linear algebra, the theoretical concept of probability like distributions, statistical area like mean and variance, and optimization techniques like maximum likelihood principles. The recent quantitative techniques are the use of stochastic process and simulation techniques like the Geometric Brownian Motion (GBM), and the Black-Schole option pricing model particularly in the area of market risk applied to the financial market data like interest, foreign exchange and equity rates.

The aim of this paper is to review of the popular quantitative approaches that have been in use in the area of risk modelling. Also provide the new

approach of risk models that could be in use for the future of risk management.

Next section will describe the type of risk need to be considered in risk management. The role of BASEL II accord and the risk models will be explained in the following sections. The last section will be the summary of this paper.

Type of Risks

Some examples of risks including the three most popular financial risks that need to be measured in the financial banking sectors can be described below; see McNeil *et al* (2005) for further details and Figure A for the overview of the three major risks.

(i) Business Risk

- Losses caused by the operations, internal and controls, etc.

(ii) Legal Risk

- Losses caused by inadequate legal advice or documentation.

(iii) Liquidity Risk

- Losses caused by the inability to meet payment obligations on time

(iv) Political Risk

- Losses caused by change in the political status quo.

(v) Model Risk

- Losses caused by the inability of models to measure the true risks accurately.

(vi) Market Risk

- Loss caused by movements in financial market prices and rates. Examples of *market risk* are

(1) Interest Rate Risk

- Risk of losses resulting from changes in interest rates.

(2) Spread Risk

- Risk of losses resulting from changes in spreads between interest rates.

(3) Foreign Exchange (FX) Rate Risk

- Risk of losses resulting from changes in FX rates.

(4) Equity Index Risk

- Risk of losses caused by changes in equity indexes.

(5) Specific Equity Risk

- Risk of losses caused by changes in individual equity.

(6) Volatility Risk

- Risk of losses caused by changes in implied volatilities used in pricing options.

(vii) Credit Risk

- Losses caused by the failure of counterparty to pay its obligations. Examples of credit risk are

(1) Counterparty Default Risk

- Risk of losses by a counterparty defaulting on its payments. For example: Customer to bank, bank to bank; thus if there is a loan, there is a certainty for the existing of *credit* risk.

(2) Country Risk

- Risk of losses by a counterparty not fully paying its obligations because it is located in a country that has imposed restrictions on funds leaving the country.

(viii) Operational Risk

- Losses caused by the failure of internal procedures and controls. It normally refers to the human (employee) error (failure) either by intentionally or by accident. Examples of operational risk are

(1) Barring Banks

- Bankrupted in 1995: the oldest UK Bank based in London with up to \$900,000,000 USD was brought by Dutch bank ING for 1GBP. Activities error performed by a trader called Nick Leeson.

(2) Long Term Capital Management (LCTM)

- Collapsed in early 2000: the hedge fund founded in 1994 with almost over 40 per cent annualized returns in its first year lost \$4.6 billions USD.

(3) Enron

- Bankrupted in June 2001: an American 7th largest corporation with capital of \$65 billions went bankrupt in 24 days with approximately \$90 millions per hour and with 19,000 employees out of work, see McLean and Elkind (2003) for further details.

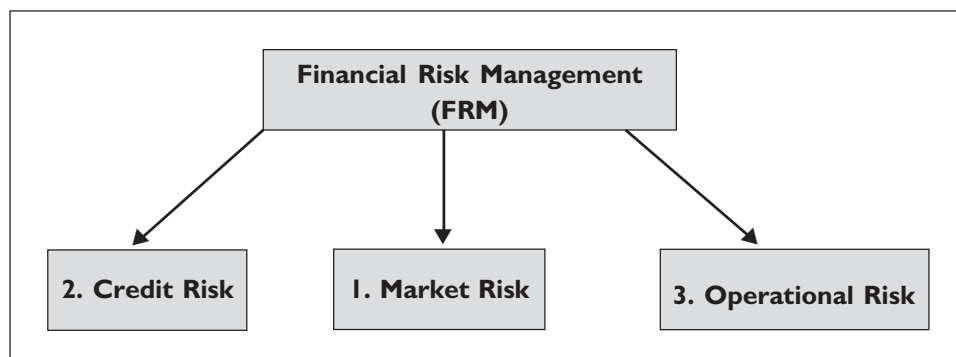
Figure A: Overview Major Risks in Quantitative RM

Figure A: Overview Major Risks in Quantitative RM

Role of BASEL II Accord

BASEL II accord focuses on the concept of *economic capital* in measuring of risk. This means that each bank must maintain the right quantitative measurement of the risk weighted assets. Economic capital plays a major role in quantitative analysis in risk management where the amount of capital requires to support any risk can be calculated using only the statistical risk distributions. The main role of BASEL II accord is to identify the amount of risk that banks are facing today and in the future. Also to help banks to implement and manage those risks using more simplified quantitative technique for the practices of financial risk management.

The name *BASEL* comes from the city in Switzerland and the word *accord* comes from the BIS which details the rules for banking settlement. The symbol II represents the 2nd accord that the BIS would like to introduce with the hope to further improve the finalized version of BASEL I accord that completed in 1988. The full details of BASEL II accord can be reached in [<http://www.bis.org>].

The G-10 Countries

The G-10 banking committee meeting in BASEL consists of the central bank governor and the supervisory authority from countries of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, United Kingdom and United States. Switzerland and Luxembourg are the latter two countries added to make the so-called G-12 countries. The meeting takes four times a year with 25 technical and 4 main working groups which also meet regularly. The other two representative BIS offices are located in the Hong Kong and in Mexico City.

BASEL II accord has been actively implemented and updated many versions of regulations to provide the best guideline for banks. The finalizations for BASEL II accord can be found in [<http://www.bis.org>] and are summarized as follows:

- (i) **1988**: Completed of BASEL I accord.
- (ii) **1996**: Market risk was added with detailed in the documentary names "Amendment to the Capital Accord to Incorporate Market Risks."
- (iii) **1998**: The birth of BASEL II accord.
- (iv) **2004**: The released version of "BASEL II: International convergence of capital measurement and capital standards" published on 26th June.
- (v) **2005**: The released of "Application of BASEL II to trading activities and the treatment of double default effects."
- (vi) **2006**: The finalized of the "Comprehensive version of BASEL II framework."

The Three Pillars

BASEL II framework consists of the so-called, the "Three Pillars" concept. This concepts detail how risk can be quantified using different quantitative techniques and qualitative report approaches. Figure B displayed the three pillars with two key players: banks and the investors. Under the latest released of BASEL II accord; the three pillars concept are defined in below.

(i) Pillar I: Minimum Capital Requirement

This pillar focuses on the minimum capital requirements for banking

organizations. To maintain the adequacy of the capital, banks can carry out their risk management work by using one of the following three approaches.

1. **Standardized Approach (SA)**

Type of Banks: Domestic retail; and high quality portfolio banks.

2. **Foundation Internal Rating-Based (FIRB)**

Type of Banks: Advanced regional; and Specialist banks.

3. **Advanced Internal Rating-Based (AIRB)**

Type of Banks: well *established* international banks that must satisfy all the minimum requirements for the FIRB approach and for the relevant risk.

(ii) **Pillar 2: Supervisory Review**

This pillar refers to the role of supervisors which deliverable by the supervisors and acceptable to the supervised. Supervisors are normally refers to the local regulator like the Financial Services Authority (FSA) for the UK; the Securities and Exchange Commission (SEC) and the Fed for the USA, and the Bank of Thailand (BOT) for Thailand.

The purpose of having supervisor for banks is to ensure that banks have adequate capital to support their risk. Thus the two key players in this pillar are the banks and supervisors. Banks should have a process for assessing their overall capital adequacy, and supervisors should review banks' assessment with the real knowledge of how pillar 1 works.

It should be stressed that the country with good supervisors who have the depth or acceptable knowledge of how modern quantitative techniques can be used for measuring bank's capital like the FSA can have the less pressure in supervising the banks; therefore banks need to be more active with their chosen pillar 1 approach; and vice-versa.

(iii) **Pillar 3: Market Discipline**

This pillar supports the other two pillars, not a substitute. It is designed to allow investors and others to make an assessment of a bank's risk management practices. At the beginning of BASEL II outlines in 1996, a discussion whether the BIS should be part of the Pillar in case there is a collapse in principle of risk sensitivity engines. The conclusion leads to the market discipline where one should be stressed with the economy and the financial market news around the global.

Risk Models

Risk Management (FRM) refers to the *measurement of risk* which can be defined as *the exposure to uncertainty or the chance of loss* calculates for the banking and financial institutes. From the current three pillars the important models used at this present for the market, credit and operational risks can be detailed in this section. Further details of the three risk models can be found in Saunders *et al* (2003).

The concept of risk modelling is to introduce the framework of probability and statistics; optimization and financial engineering techniques. For example, to complete any quantitative risk modelling works, there are four important steps that need to be considered carefully: (i) the data analysis, (ii) the chosen model, (iii) the estimation methods; and (iv) the result of estimated risk value. For each risk model, the use of the so-called stress testing (i.e. the model measures the sensitivity of economic and market news), and back testing (i.e. the model uses to support the risk model) are also essential in the risk modelling context. The full details of modelling concepts can be found in Surapaitoolkorn *et al* (2006).

Market Risk: VaR Models

The Value at Risk (VaR) model is known to be popularly used in market risk. At present (2007), there are various numbers of VaR models and non-VaR models that can be used to measure the financial market risk. Nowadays there are plenty of technical documents and text books that discussed VaR models reasonably, amongst them are McNeil *et al* (2005), and many internal banking technical reports.

The method of VaR Model is used to find the maximum expected loss of a portfolio over some time horizon with a given level of probability. It can be calculated using many different simulation methods where *stochastic processes* are used to simulate the temporal evolution into the future of the market risk drivers like the Geometric Brownian Motion (GBM), the Black-Schole option pricing model. These models are commonly applied for base interest rates, interest rate spreads, foreign exchange rates, equity rates, implied volatilities.

Market risk models are mostly flexible and can be extended easily. It can be related to many exotics and complicated financial products like bond, swap, options, forward or structured notes. This is because market risk data comes from the financial markets such

as the FX rates, the interest rates, the stock indices, and the bond prices.

The simplest way to introduce the VaR model is to consider the discrete case of the changes in a given NPV (\$) with its probability as follows:

Example: (Discrete Case)

Changes in NPV(\$)	-60	-40	-20	0	20	40	60
Probability(%)	5	10	20	30	20	10	5
Cumulative Prob.	5	15	35	65	85	95	100

The expected change in NPV is 0.0; and the standard deviation is 14.49.

We may calculate that over the next month there is a 95 per cent probability that we will lose no more than \$60 millions. That is: $Prob\{dV \leq -\$60 \text{ millions}\} = 0.05$, where dV is the change in the portfolio's value, and 0.95 is the degree of confidence and \$60 millions is the value of VaR.

VaR Methods

Most VaR methods are based on the simulation process. There are three popular simulation methods of VaR and one popular non-VaR models which can be compared and described as follows:

(i) Parametric VaR or Correlation Model

- This is the least complicated VaR model where the returns are assumed to follow the Gaussian distribution with constant correlations between risk factors. It is the fastest to implement and easiest reports to generate.

(ii) Historical VaR or Historical Simulation

- This is more complicated VaR model. The idea is to use the exact trends in historical prices to allow for the greater presence of shocks to the market. The model assumes past prices are good use for prediction of future prices but uses a single path of prices to compute VaR thus the

result might not be accurate. The simulation process takes time to implement.

(iii) Monte Carlo VaR or Monte Carlo Simulation

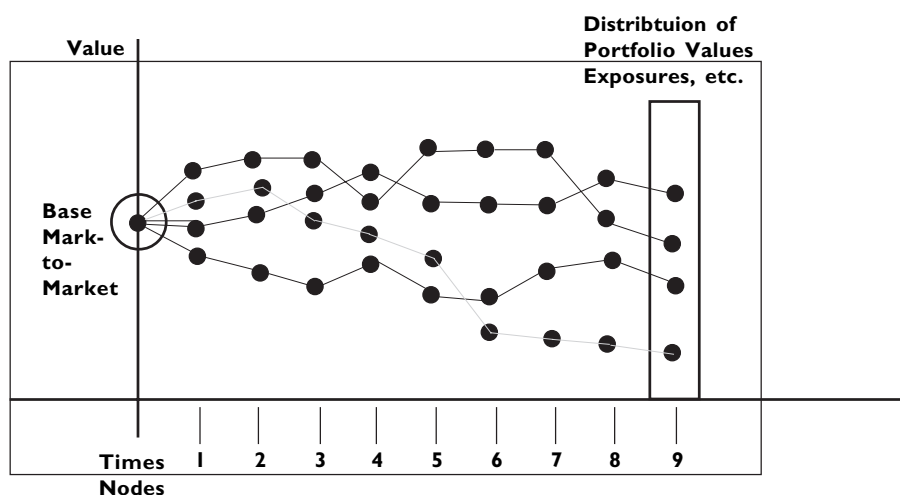
- Figure B displays how the simulation process works in term of number of runs which produced paths. This is the pure reason why the method works well and more efficient than the other two simulations. In this figure the simulation generated many sample paths using the historical data with the increase number of runs, until its converges where the portfolio maintains the constant variance, rather than holding the same assets over time.
- In market risk models, Monte Carlo engine often uses one day holding period for estimating potential losses, which is not a problem for most liquidity markets. But for some less liquidity markets one week VaR model might be more appropriate, (see Glasserman (2004) for more details).
- It is also known to be the most complicated, flexible but more difficult in all three simulation methods. The simulation takes time from day to weeks thus it is not appropriate to use for some internal bank models.

(iv) Valuation Models, (The non-VaR model)

- The estimation of the VaR and the understanding of the financial products using finance theories (for example; arbitrage pricing theory, derivatives, and hedging) are not

the reason why we need to use the QFRM in market risk models. Instead, the true understanding of mathematical and stochastic processes concepts (for example; stochastic calculus, numerical analysis, and simulation) are the purpose of using the quantitative approach in market risk models. Valuation models or the non-VaR models or sometimes known as the alternative of VaR models are the future

quantitative approach for market risk models that need to be considered extensively. The idea is to provide the quantitative methods that have ability to price the financial products, to design the fuzzy type of products and the strategies for risk measurements in market risk. The most popular financial products at present are Option (call and put options like European, American, Bermudan), and Hedging.



Related to Pillar 1 of BASEL II accord, the risk weighted assets are allowed to use the *same* BASEL I accord (1996) for market risk models. This means that VaR model is allowed to be implemented for any banking sectors for standardized approach with the optional of internal VaR models and alternative VaR model for the FIRB.

Credit Risk - Merton Models

The present popular credit risk models are based on two approaches; (i) the Merton model (1974) approach which is the classic prototype of all firm value models, and (ii) the KMV model found by Kealhofer, McQuown and Vasicek during 1990s which is now maintained by Moody’s KMV (see Lando (2004), and McNeil et al (2005) for more details).

In credit risk models, we concentrate in deriving the loss distribution of a loan or bond portfolio over a fixed time period, normally it is at least one year. This is within the concept of economic capital. In practice the models can be divided into two types:

- (i) the *Structural-form model* based on the Merton model which defines how the firm’s default using the relationship

between its assets and liabilities, and, (ii) the *Reduced-form Model* based on the underlying of stochastic factors used in the mixture models. This model is found to be more useful in practice for analysing and comparing one-period portfolio credit risk models.

In order to perform both credit risk models mentioned above, there are two important areas namely the economics capital (EC) and the probability of defaults (PD) which can be explained as follows.

Economic Capital Model (ECAM)

This build on the concept of profit and loss and the two popular approaches used are based on the so-called the KMV and the Risk-adjusted return on Capital (RAROC) formula which involves calculating factors of the portfolio unexpected loss (UL), and the loss distribution. The other important terms need to be calculated are the exposure at default (EAU), loss given default (LGD), the PD, and the default correlation. For full details of ECAM see Ong (1999).

Probability of Defaults (PD)

‘Risk’s being default’ is the key ingredient in the credit risk modelling. The probability of default is the measurement that quantifies the

firm's financial position and asset quality, normally refers to term credit migration. At present, the famous empirical methods used to measure the probability of defaults in firms, banking sectors are:

(i) Credit rating (for corporate sector)

Divide the corporate customer into the AAA (excellent group), AA, A, BBB, BB, B, CCC, CC, C, R, D (extremely bad) using the historical credit data. Then finalize on the PD estimation using different mathematical methods.

(ii) Credit Scoring (Consumer)

Calculate Score (instead of PD) for each customer and then group them from good to bad. The uses of attributes such as characteristics (age, education, sex) of customer (instead of historical credit data) are essential in this analysis.

This method is widely used for the authorization of credit cards, house loans, etc.

The current models mentioned are robust and can be used from present to the future depending on the internal type of banking data. However, the model needs to be implemented regularly from time to time. Related to the BASEL II accord (2006), the FIRB approach for credit risk models demands bank to consider all of the ten followings requirements carefully; and for the AIRB approach bank must satisfy all of the FIRB requirements as well.

- (i) Meaningful differentiation of credit risk;
- (ii) Completeness and integrity of rating assignment;
- (iii) Oversight of the rating system and processes;
- (iv) Criteria of rating system;
- (v) Estimation of PD;
- (vi) Data collection and IT system;
- (vii) Use of internal ratings;
- (viii) Internal validation; and
- (ix) Disclosure.

Operational Risk - Bayesian Models

The operational risk modelling is still a challenge for BASEL II accord. Operational risk is not like the market and credit risk because it is not easy to derive the loss of distribution due to many factors, such as the lack of risk data, wrong

parameters used in the model. At present banks are allowed to use one of the following three approaches provide for pillar 1 (also introduced by J. P. Morgan in the early 2000).

(i) The Basic Indicator

This approach links the capital charge for operational risk to a single indicator that serves as a proxy for the bank's overall risk exposure. For example, if gross income is identified as indicator, each bank will hold capital for operational risk equal to a fixed per cent of its gross income (i.e. α Factor).

(ii) The Standardised

This approach may be used by banks meeting certain minimum standards builds on the basic indicator approach by dividing a bank's activities into an umber of standardised industry business lines (e.g. corporate finance and retail banking) into which banks map their internal framework. Within each business line a capital charge will be calculated by multiplying an indicator of operational risk by a fixed per cent (i.e. β factor).

(iii) The Internal Measurement

This allows individual banks meeting more rigorous supervisory standards to rely on internal data for regulatory capital purpose. Banks will collect three data inputs for a specified set of business lines and risk types: an operational risk exposure indicator plus data representing the probability that a loss event occurs and the losses given to such events. To calculate the capital charge, the bank will apply to the data it has collected a fixed per cent (i.e. γ factor) that has been determined by the Committee on the basis of industry-wide data.

For operational risk models, the new quantitative techniques that could be used for quantify risks are:

- (i) Bayesian Modeling which is the probability model using the Bayes's theorem consists of $P(A|Y) = \frac{P(Y|A) \times P(A)}{\int P(Y|A) P(A) dA}$;
- (ii) Non-parameters models concept like the neural networks, the fuzzy logics and the genetic algorithms.
- (iii) Non-time series models like the frequency domain and the long memory.

Summary

This paper reviews the quantitative approaches provided from BASEL II accord at present and currently used in the market risk, the credit risk, and the operational risk models. The amount of empirical works involved for each risk model is enormous and it is essential to implement the model regularly when update the new data set for each simulation; and thus for each risk model.

The role of simulation is the key ingredient used for estimating the risk values, like the Monte Carlo simulation which found to be the most efficient methods use not only in the market risk models but also in the credit risk model and certainly for the up coming operational risk models. The two important factors in running simulations are the shortest time running and the fastest computer and software use for all risk models.

The overview of future quantitative approaches are also given in this paper, with the hope to measure risk more adequately and to maintain the right amount of capital advised by the BASEL II accord. In market risk models, the non-VaR or alternative VaR models are known to be more of suitable and greater use in most advance banking sectors. In credit risk models, the Merton based model is more suitable for the Asian banks or advanced regional banks due to the limitation of credit data, and the KMV based model is more suitable for the well established international banks like some major investment banks in the UK. In the operational risk models, more research and models testing are required before the additional of the model's regulation in the new documentary of BASEL II accord.

This quantitative area requires a great use of risk specialist from all over financial engineering areas like mathematician, engineers, statistician and physicists to help with what to become the future quantitative techniques for the current and

future type of risks to use in the new banking sectors and financial institutes.

Key words: BASEL II Accord, BIS, Quantitative, Risk management, Risk models.

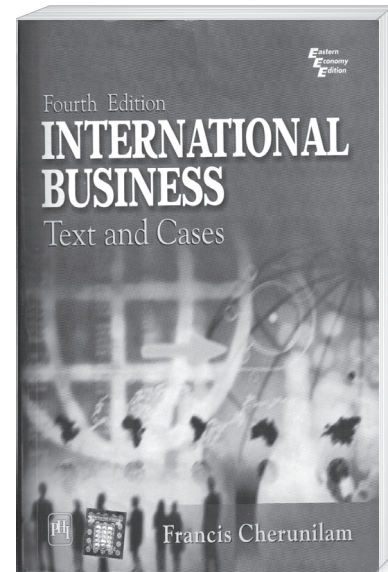
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Skimming and Scanning



Book Title	: <i>International Business Text And Cases</i>
Author	: Francis Cherunilam
Edition	: Fourth Edition
Price	: Rs.395/-
ISBN	: 81-203-3096-X
Pages	: 848
Publisher	: Prentice Hall of India, New Delhi.

The fourth edition of *International Business* from Dr. Francis Cherunilam is an excellent resource to students and educators of professional academic arena. The author puts sincere effort to include recent happenings in the global business.

Author carefully selected contents of the book by including relevant aspects of International Business without giving too much analyses of a particular chapter. A student of international Business will find it very useful, since this book covers almost all modules of subject like Global Business Environment, International Business, which has been taught in almost all b-schools in India.

Global business scenario is changing very fastly. Teaching of theories back to the age of Adam Smith and Mercantilism is not enough to create a professional during the period of Mergers and Acquisitions, and a new era of Global village. Academicians have to provide enough backing to students to understand real potential of Globalization. Trade and investment is increasing at a very high rate. Developed countries have reduced tariffs and duties and many economically growing countries are also following the suit, results being better trade opportunity and more employment generation. The Author puts different incidents as examples in boxes in every chapter giving an application to the theory. Educators find it as a ready reference book since it contains recent data and information.

The environment of International Business has been changing very quickly. A firm in global business has to adopt different strategies in different countries. Within these countries due to the changes in Economical and Technological front, attitude and life style of people is undergoing a tremendous shift.

First and foremost change was due to the development of technology the real meaning of Global village has been experiencing today. Growth of Information Technology empowered people with good education, more employment opportunities, more market accessibility etc... Life style of people is undergoing a dramatic change due to the better opportunities. This is more visible in China and Japan. Employee - employer relation has also been changing.

The Economies of China and India are growing at a faster rate. Many Indian companies acquired foreign giants and repositioned themselves in the global market. Tata Steel's acquisition of Chorus and Mittal's acquisition of Arcelor are few examples. The author gives many more examples of Mergers and Acquisition in his book.

In chapter 4, International Trading Environment, and in chapter 5 GATT/WTO and Global Liberalization, the author analyzed the pros and cons of recently emerged economic integrations, trade blocs, the Doha declarations, W.T.O. and developing countries in a simple and unique style.

International Monetary System and Foreign Exchange market is another area of concern. Recent fluctuation of dollar value and strengthening of Rupee made Indian exporters more in trouble and found import more profitable. In chapter 6 author defines the monetary system prevailed in the post World War I period, pegged exchange rate system, Breton wood system etc.

Exchange risk is one of the main problems firms have in International Business Operations. The author explains the strategies to reduce risk, Foreign Exchange Management Act, and its objectives.

The growth of International Business, International Monetary System and Foreign exchange market definitely impart the growth of International Banking. Euro currency Market and its evaluation, internationalization of stock markets are the main topics covered in chapter 7.

The world economic organizations such as IMF, World Bank are for the development of member countries are now dominated by developed countries. Borrowings of developing countries have been influenced by the interest of this developed nation. One of the main advantages of Globalization is the inflow of foreign investment and thereby more economic developments. Foreign direct investment in the developing countries showed a marginal increase in recent years. India is still lagging behind. In this book, through several chapters students will get an in-depth knowledge about these areas with current data.

Growth of MNC's & TNC's is another feature of Globalization. Many non-US MNC came to the fore.

Selection of Market and market entry strategies are important strategies for firms entering in to the international business. Firm's

interest should match with the market characteristics. How the firm is going to enter into foreign market and selecting a strategy from various options is purely based on the firm's objective and interest.

Social issues related with International business are growing now. In India after the Coke issue FDI in retail business is the hot subject for discussion now. An international business manager should be aware of many social responsibilities while taking crucial business decisions. The author could have included many related cases in this regard.

In Globalization of Indian Business, the last chapter of the book, the author gives a very summarized analyzes of Indian firms globalization efforts. Availability of technically qualified human resource is one of our strengths.

Model questions given at the end of each chapter will help students to put their general awareness about the subject and ignite research aptitude for recent developments.

Salient points and summary of each chapter are found very useful and easy to review.

Case studies given at the end of the book are focused more on Indian experience. Cases like "Who's Basmati Is It?" "Indian Leather goods exports" will help the students to analyze the prose and cons of globalization in a country like India.

Madhu C.S.

Lecturer-International Business

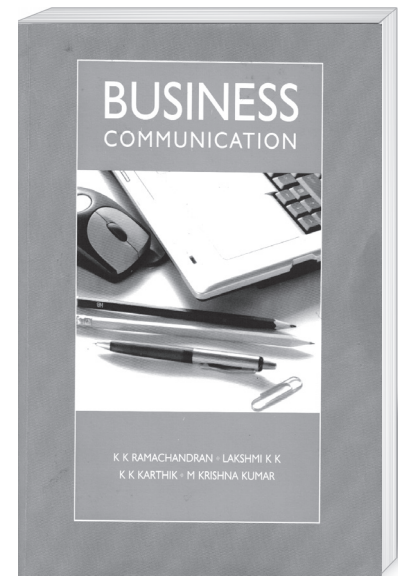
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Skimming and Scanning

Book Title	: <i>Business Communication</i>
Authors	: Ramachandran K.K., Lakshmi K.K., Karthik K.K. and Krishna Kumar M.
Edition	: 2007
Price	: Rs.165/-
ISBN	: 0230-63297-1
Pages	: 303
Publisher	: Macmillan India Ltd., New Delhi.



Most of the changes happening in the dynamic world of business in recent times are invariably linked to communication. The globalization of business, the new knowledge based economy and technological changes in information gathering and dispersal are just some of the factors that have impacted on the communication dynamics in the modern workplace.

In the highly volatile and problematic world of modern business, relations often hinge on the quality and effectiveness of communications. Hence it is imperative that students of business have an in-depth, structured and comprehensive approach to the study of Business Communication.

Macmillan's latest offering '*Business Communication*' is interesting and relevant in this context. It cogently reflects the communication needs in the real world of modern business and provides the student with the tools needed to negotiate the complexities of workplace communication.

As stated in the Preface, the authors, who are experts in different fields like Commerce, International Business, Management, Marketing and Communication, have pooled their resources to evolve a unique text that strategically links communication to the various facets of business.

The text begins by defining the theoretical underpinnings of communication. From the second chapter through to the last but two chapters, the focus shifts to business correspondence.

Beginning with the basics of how to write a business letter, the reader is led through the subtle nuances of business correspondence in its myriad versions. Apart from the regular office correspondence, which includes chapters on how to prepare business quotations, make credit and status enquiries, write complaint letters, adjustment letters, sales letters etc., there are also whole chapters devoted to specialized areas like banking correspondence, life insurance correspondence, agency correspondence and correspondence of a company secretary. Sessions on report writing, public speaking, telephone etiquette and MIS are also included. An abundance of perfectly formatted model documents provided in each chapter enhance student understanding of communication concepts and the end of chapter exercises help to reinforce learning.

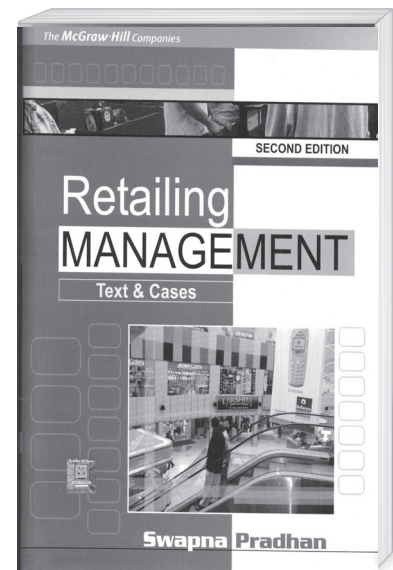
The book may be faulted for being too focused on written communication and thus it ends up trivializing the other skills - listening, speaking and reading. Certain topics that is vital in the modern business scenario, such as cross-cultural communication, gender issues in workplace communication, team dynamics and communication etc., have been ignored. Despite this, *Business Communication* is a pedagogically valuable tool for faculty as well as students of business. The language is refreshingly simple and accessible and the book is immensely useful to students who take the study of communications seriously.

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Skimming and Scanning

Book Title	: <i>Retailing Management (Text And Cases)</i>
Author	: Swapna Pradhan
Edition	: Second Edition
ISBN	: 0-07-062020-2
Pages	: 478
Publisher	: Tata McGraw-Hill Publishing Company Limited, New Delhi.



Ms. Swapna Pradhan, Associate Professor–Retail at the Welingkar Institute of Management Development and Research, Matunga, Mumbai has brought out the second edition of her book “Retailing Management.” The book, which was first published in 2004 by Tata McGraw-Hill, is claimed to have been well received. Ms.Pradhan’s book should be of considerable interest to both the students and retail managers in India as she had a fairly long innings in Indian retail industry before entering the academic scene.

The Indian retail scene is indeed undergoing a tremendous change and one of the biggest challenges faced by this burgeoning industry is do we possess the necessary managerial force to efficiently run it? Another challenge is the kind of ignorance exhibited by the so-called think tanks and self-opinionated intellectuals and politicians of the country about what is the economic significance and role of organized retailing in a developing country such as India. The book written by Ms.Pradhan should come as great fillip to those who desire a comprehensive understanding about the world of organized retailing that is just unfolding in the country.

Organized retailing as it has taken shape elsewhere in the world has contributed to improving efficiency in retailing as a sequel to the changing needs of the consumers of various products and services. All the changes and innovations in the retailing industry is in response to the changes in the environment caused by the transformations in the buying and consumption patterns of the customers fuelled by changes in the demographics, psychographics, values, and cultures

of the people everywhere. Therefore, a comprehensive exploration of the subject as attempted by the author in this book will be of immense benefit to all concerned. That is good enough reason for the entire retailing fraternity in this country to greatly welcome this book by Ms.Pradhan.

The second edition of “Retailing Management” comes with refreshing changes in its overall appearance and presentation. The first edition with a splash of many colors and disproportionately large diagrams and tables appeared to resemble a tenth grade school text. The second edition too suffers from easily avoidable flaws in the presentation and editing of facts and figures.

Chapter II, Retail in India, contains a lot of interesting statistics about the composition of the retail sector. Comparing them with the world standards does provide the reader a good perspective about the scope and potential for the growth of retail business in India. Presentation of these statistics however is be set by inaccuracies and inconsistencies like the following:

On page 33 – under “Food and Food services” following sentences appear.

“The Indian food and grocery market is estimated to be at Rs.615,000 crores, valued at Rs.2,950 crores. The organized and grocery sector constitutes less than one per cent of the total market.”

The above sentences should have been corrected to read:

"The Indian food and grocery market is estimated to be Rs.615,000 crores; but the contribution from the organized retail segment was valued at Rs.2,950 crores which was only less than one per cent of the total market."

Another instance of careless proof reading appears on page 40 of the text. A picture of Higginbothams at Chennai the leading booksellers is shown with a caption underneath it "The imposing Façade of *Higginbottams*, Chennai."

Section one of the book fairly deals with the emerging retail scene in India. Retail models and their evolution in the country receive serious attention. The author appears to restrict the traditional definition of retailing as that which "includes all the activities involved in selling goods or services to the final consumers for personal, non-business use."

This may be acceptable when retailing is viewed mainly as just "selling" products through stores or otherwise. But these days, a definition that is mostly accepted in the retailing world is:

"Retailing is the set of business activities that adds value to the products and services sold to customers for their personal or family use." The thrust behind this argument is that providing more and more value will only enable the retailers to develop and sustain competitive advantages over its competitors.

While focusing on the changes in the retail world, it would have been more beneficial to the readers if a detailed discussion were attempted. Apparently, there are several reasons (demographic, socioeconomic, lifestyle trends) why the changes had occurred or are still occurring. The technology is increasingly recognized as a critical agent of change. Many other textbooks on retailing devote more space and care on the changing world of retailing in regard to the role and relevance of "multi-channel retailing." Classifying retailers as store/non-store/ electronic/catalog retailers present an opportunity to understand how customers want to buy things differently at different places on different occasions.

Through chapter 3, "Retail Models and Theories" the author provides an in-depth analysis on the evolution of retailing on the world scene and rightly asserts, "consumer demand is the prime reason for the emergence of various formats." However, there does not appear to be any serious recognition of the fact that "variety and assortment" of merchandise is a key aspect that needs to be

considered while offering a particular format that suits a targeted segment. From the point of view of managing costs and attaining efficiency and profitability in operations a solid discourse on merchandise variety and assortment would have been highly desirable.

This drawback appears to become more pronounced during the discussion on the "Classification on the basis of the Merchandise offered" in chapter three. Explaining the relevance and importance of department stores, specialty stores, and category specialists/killers could have been far more effective if the discussion had centered more on variety and assortment. Students often confuse between variety (breadth) and assortment (depth). Students also tend to confuse in the usage of retail types like discount stores, supermarkets, department stores, hypermarkets, supercenters, etc. On page 70, Wal-Mart is erroneously referred to as a hypermarket. Wal-Mart started as a discount store; and lately it had combined the discount store and supermarket formats to form Supercenters.

On retail strategy, fairly good focus is laid out on the importance of retailers adopting a key strategy to sustain them in the market place. It has become all the more critical to follow a strategy in the context of intensifying competition among the retailers. One of the ways in which retailers have attempted to develop a strategy is through the introduction of new and effective retail formats that would meet the needs of the targeted customers. Probably some discussion on the kinds of competitive advantages such as Customer Loyalty, Human Resource Management, Distribution and Information Systems, etc. could have added more value to this section.

Customer relationship management (CRM) and supply chain management (SCM) borne out of dynamic information systems are major tools for achieving competitive advantages. These issues have been dealt with more in the nature of methods meant to ensure good services and managing merchandise respectively.

CRM could have been considered as the best tool for enhancing customer loyalty. Researches have established that retaining customers are more profitable and less expensive to creating more and more new customers. Likewise SCM is meant to improve product availability through fewer stock outs and assortments of merchandise that customers need at where they want.

The author has set out to provide a very comprehensive analysis of all the important aspects of retailing including merchandise

management, site selection, store design and layout, and displays etc. Since the flow of information in retailing is quite complex and very vital for the efficient management of stores, some detailed analysis of the role and enabling capacity of the technology, data warehousing, and Internet could also have greatly augmented the overall value of the book.

A few cases are provided at the end of the text that empowers the readers in gaining good perspectives on how organized retailing is evolving in India and abroad. Added to this are short illustrations on companies, e-tailers, brands, stores, organizations, environment etc. that are scattered all over the pages (which the author refers to as 'snapshots'). These too decidedly generate a lot of curiosity and interest since modern retailers as well as e-tailers, do not simply offer customers goods and services but also compete with each other in providing a lot of fun, frolic, and experience at the retail locations.

As this book has been written targeting the students mostly, every effort should have been made to ensure that it would stand up to a careful scrutiny on all grounds. By paying greater attention to details and authenticity of information contained in the book, it would have been easily possible to elevate the standards of the book. However these lapses do not seriously impair the overall quality of the book and admittedly can be ranked as one of the best of its kinds written by an Indian author.

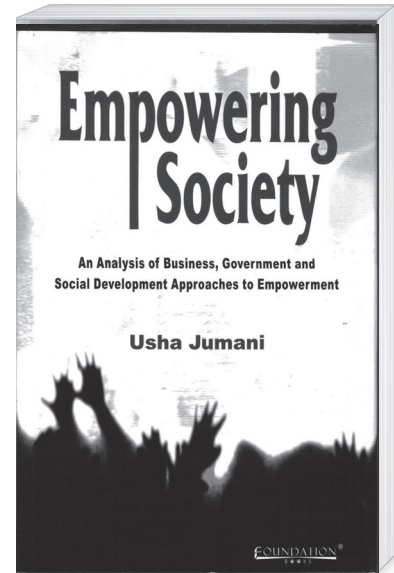
And a final note; provision of a glossary and subject index at the end of the text would have come very handy for the discerning readers.

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Skimming and Scanning

Book Title	: <i>Empowering Society</i> <i>An Analysis of Business, Government and Social Development Approaches to Empowerment</i>
Author	: Usha Jumani
Edition	: 2006
Price	: Rs.495/-
ISBN	: 81-7596-317-4
Pages	: 263
Publisher	: Foundation Book Pvt.Ltd., New Delhi.



This book is an attempt to analyse how empowerment of the people is put into practice by business organizations, Government and Social development organizations. The book is divided into three parts and has three appendices with five case studies. Part one 'The Setting' deals with The Context of Empowerment, The Indian Realities and Empowerment and Corporate Social Responsibility. Part two deals with 'Nature of Empowerment in Three Different Organizational Systems' empowerment in the context of Business Organizations, Government and Governance and Social Development Organizations. Part three 'Towards a Framework For Empowerment' deals with the Process Orientation, Bases of Power, Organizing and Organization, Mainstreaming, Representative Organizations and Empowering Society.

Appendix I contains views on empowerment by known personalities and appendix II perceptions of empowerment containing advertisements made by various government departments, institutions and companies. In appendix three case studies on *Excel Industries Ltd.*, *Gujarat Ambuja Cements Ltd.*, *Tata Chemicals Ltd.*, *Gujarat Coopertative Milk Marketing Federation Ltd.*, and *Indian Farmers Fertilizer Cooperative Ltd.*, is included.

The word empowerment has got various connotations, which is to be understood in the context in which it is used. The author has explained in lucid terms the meaning of empowerment with suitable quotes from various authorities on the subject. The Indian realities on empowerment of various groups have been explained with figures and charts.

Empowerment efforts by corporate through their actions through Corporate Responsibility with suitable illustrations have been made in a very attractive and eye catching manner. The efforts by various corporate entities giving in detail their origin, philosophy of the founders of such organizations, social background and their various activities, have been discussed in detail. The example of GCMMF, a co-operative endeavour to empower the rural woman folk, is worth mentioning. The effort of the Government to empower the citizens through programmes implemented by the Central Government and State Government has been explained in detail. The sincere effort made by Non-Government Organizations to empower the unorganized and neglected people of the lower strata of the society has been cited in a very knowledgeable manner.

The framework for analyzing the empowerment in five strands certainly gives practical knowledge as to how empowerment could be made possible by weaving the various strands together.

The case studies included in the book are of immense use to academicians and practitioners since the author has acquainted herself with the working of those organizations.

Finally the impressive layout and printing of the book makes it more attractive.

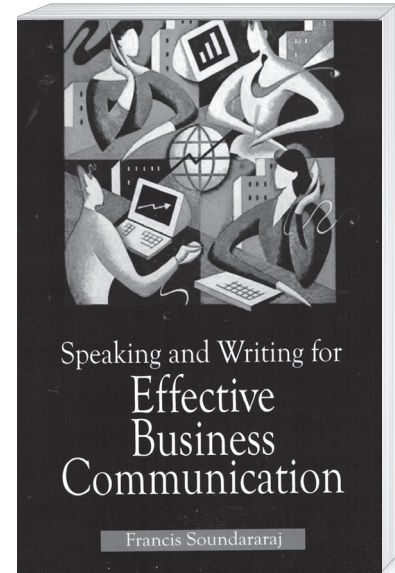
Usha Jumani is a Post Graduate in Management (PGDM) and is a fellow of the Indian Institute of Management, Ahmedabad. She has specialized in Organization Development. She is a management consultant engaged in capacity building among people to enable them to manage their organizations effectively.

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Skimming and Scanning

Book Title	: <i>Speaking and Writing for Effective Business Communication</i>
Author	: Rev. Francis Soundararaj
Edition	: 2007
ISBN	: 0230-63012-X
Pages	: 207
Rupees	: 150/-
Publisher	: Macmillan India Ltd., New Delhi.



The academia dealing with business are shrewd in the sense that with astute dexterity and sagacious expediency, they marginalize language proficiency needed in business by keeping it only as a subsidiary superficiality, and fixing it in a location in the remote corner of a showcase as business correspondence or business communications. This quite naturally leads us to think that language needs in business are restricted to that much only.

To me, business, management, and business management are all manifestations of one discipline. It demands "action." Action comprises three things: "word," "deed," and "thought," that take place in the sphere of language competence and performance. No matter whether one is a specialist in finance, or operations, or human resource, or marketing, the "tiger" – business management – has to devour all these "lady-" resources - to beam a smile on its face. I strongly feel that to enhance the quality of business and management, the participants of such programmes shall improve in word – the ability in the use of words in speaking and writing for which one has to learn a lot, in deed – the ability to express ideas in deeds which is also done in terms of orders and instructions, and thought – the activity that is accomplished only through language.

But here is another book to join the train of the conventional

books in teaching how to speak and write in the marginalized discipline - business communications. However the book shows considerable relief in that it treats business communication as a real prop to business. The attempt of the author deserves good feedback from the academia. The book acknowledges the competence one requires in language and it leads the reader to good performance using language effectively.

In the introduction, the author states that he has some defined goals in the preparation of the book. The book makes the process of imparting skills of communication more holistic and effective. It updates teaching materials in business communication to match the state-of-the-art and incorporates insights of communication theoreticians into the learner-centred pedagogy.

The author notes with concern the present state in business communication discipline. Only nine per cent communication time of business people is spent on writing whereas 75 per cent time is spent on speaking and listening. This fact is ignored in business communication course books till date. Here, an attempt is made to change this anomaly. This is the first goal. Dialogue making, telephone conversation, holding and taking interviews, and making electronic presentations demonstrated with models, fill the gap. As goal two, the state of the art is noted. As goal three, learner centred pedagogy is evolved. Part

It deals with detailed explanations, examples, and exercises, enabling the readers to adequately understand the basic concepts of communication and their application. Part II is more on business communication, covering areas like telephonic conversation, placement interview, internal memos and external correspondence. The book includes commercial aspects of communication like preparing “tenders” and making “bids” and the emerging field of electronic communication. The “English professor” in the author has provided the useful section on grammar and usage at the end.

Besant C.Raj has favoured the author and the publisher with a “Foreword.” It’s rather a review. It’s a good sign that the author

offers his profound thanks to *Business Communication Today*, *Better Writing*, *Written English* and *A Grammar of English*. It was a well-drafted acknowledgement. A list of the vowels and consonants of English is meaningfully given, with symbol, sound, IPA symbol etc. The book provides the beginner with a sound knowledge of the basic concepts of business communication and also offers the professional, the tools necessary to practise them.

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SKIMMING AND SCANNING

Retailing Management

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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).

The manuscript should accompany the following separately:

- § 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.
- § Editors reserve the right to modify and improve the manuscripts to meet the Journal's standards of presentation and style.
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- § 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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