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About the Journal
The BIITM Business review provides an academic forum for encouragement, compilation and dissemination of research on various aspects of management and business practices. It includes original empirical research as well as theoretical and conceptual works related to the field of management. It also publishes case studies, critical evaluation of existing business models and theories, and reviews of the latest books relevant to the corporate world.

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RESEARCH PAPERS

CASE STUDY

From the Editor's Desk

In a globalised economy, knowledge plays a crucial role. The increasing importance of knowledge creates both a challenge and an opportunity for the developing world. In order to function in the new world economy, students and teachers have to learn and navigate large amounts of information, make analyses and decisions, master new knowledge, and accomplish complex tasks collaboratively. Thus, knowledge is more important today than ever before as the twin forces of globalization and technological advances are catalysing an on-going knowledge revolution. The **"BIITM Business Review"** is a modest attempt in this direction.

Management education does have bits from other disciplines like accounting, statistics, and economic modeling to clarify decision-making. Management also consists of philosophical beliefs that can be traced to both rationalism and humanism. This journal is published with the objective of helping the management scholars to expand the domain of their analysis, work with people from diverse experiences, and effectively communicate with others.

A knowledge society is characterized by the application of knowledge in business, industry, education, health care, and also in governance. This journal contains research papers covering all these emerging issues of management education. The articles are serialized in the order in which they were received. These papers lay emphasis on the urgent need to perform in the emerging knowledge society, present prevailing concerns critically, and focus on the value system that should go with quality.

This maiden issue of "BIITM Business Review" comprises 8 papers and a case study.

In the first paper, "Interface between policy initiatives and industialisation: Empirical Evidences from Orissa" by Prof. P.C. Tripathy, a prototype stochastic model has been estimated with the help of econometric techniques to establish a cause-and-effect relationship between various policy measures as well as institutional measures and the industrial development in the state of Orissa.

The second paper, "Customer Service Quality in the Indian Banking Sector" by Prof. G.C. Agrawal and Dr. Shikha Agrawal, is also an empirical paper which attempts to find out whether the commercial banks in the present scenario are providing efficient services to the satisfaction of the customers.

In the third paper of this maiden issue, namely, "Revenue Recognition in Software Sector" by P.K. Mohanty and S.K. Padhi, an attempt has been made to compare the relevant accounting standards on revenue recognition under Indian Accounting Standard 9 and under US GAAP. The paper also examines closely the revenue recognition methods followed by selected Indian software companies like Infosys, Satyam, Wipro and TCS.

The fourth paper, "Transfer Pricing Regulations in India: A Need for Synchronization under the Disclosure Requierments" by S.K. Padhi, explores the possibility of a perfect transfer pricing mechanism which can protect the interest of Revenue as well as be just to the taxpayer. In the latter part, the paper examines the need for additional disclosures under AS 18 through an empirical study of 20 listed Indian companies.

Dr. R. K. Panda's paper, "Inequity in the Flow of Commercial Bank Credit to Agriculture – Analysis of Recent Trends," analyses inter-state and inter-farm inequity in the flow of commercial banks' credit to agriculture and concludes with the finding that not only are there wide variations in the growth of commercial banks' credit to agriculture across states but the distribution of bank credit is also skewed in favour of the more developed states.

The sixth paper of this maiden issue "Financial Inclusion or Debt Trap: Empirical Evidences from Micro-finance Institutions in Odisha" by Prof. K.B. Das and Debashreet Das evaluates the role of micro-finance services in the socio-economic transformation of Odisha through poverty alleviation and women empowerment, and suggests policy measures to correct the aberrations in the system.

The seventh contribution in this issue has the title "The 7 P's of Services Marketing and Mutual Funds: An Analytical Approach to Indian Capital Market". In this paper Prof. K.K. Patra and S.P. Tripathy establish the relevance of the extension of the traditional 4 Ps of marketing to the 7 Ps of Services Marketing with particular reference to the marketing of Mutual Funds and investigate into the investors' perceptions regarding investments in mutual funds in the Indian Capital Market.

The last paper carries the title "How Internet has changed the concept of Advertising" and is a contribution by Dr. G. Mohapatra and Subrat Swain. This paper explores the impact of the internet on the forms and functions of advertising.

The last contribution in this issue is a case study with the title "Dr Kiran Mazumdar Shaw: A Leadership Profile" By Archana Choudhary and Y.R. Lakshmi.

We place this first issue of "BIITM Business Review" in the hands of the readers with the hope that they will find the contributions informative and enlightening. We would like to express our sincere gratitude to all the contributors. On behalf of the Editorial Board, we welcome your critical comments, views and suggestions to make the "BIITM Business Review" a worthwhile asset to the field of management research at the national level.

Bijoy Bal
Chief Editor

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INTERFACE BETWEEN POLICY INITIATIVES AND INDUSTRIALIZATION – EMPIRICAL EVIDENCES FROM ORISSA

*P.C. Tripathy

ABSTRACT

The paper specifies a prototype stochastic model to determine the impact of various policy- and institutional measures on the industrial development of Orissa. The models are estimated with the help of econometric techniques to establish cause and effect relationship between the dependent and independent variables. The paper is based on the primary data collected for the research project undertaken by the author entitled, "Interface between State-level Development Banks and Industrialization in Orissa". The research methodology includes multiple regression analysis. It is interesting to note that institutional finance provided by different state-level financial institutions has made positive contribution to both gross output and employment. Although this study is confined to sample industrial units in undivided Puri District of Orissa, it has the representative character to cover up the whole state.

I. INTRODUCTION

The research paper aims at specifying and estimating econometric models to determine several determinants of industrialization in the state of Orissa. Although Orissa is very backward in respect of industrial development, several policy-and institutional measures have been applied during the plan periods to secure industrial growth. This research has attempted to find out the efficacy of these measures. A study of this kind is pursued with the help of primary data collected through field survey during 2006-07. The data for estimation came from a cross-section of seven blocks spread over undivided Puri district of the state of Orissa. Sample industrial units coming under six industry types like cotton textiles, basic metal, chemical and allied, electrical and electronics, hotels, and other miscellaneous industries were included within the scope of the field of survey. The particulars of the industrial units located in the selected blocks of undividedly Puri district were collected from the District Industries Centre. There were 260 functional industrial units. It was decided to include 130 units in this study on a 50 percent stratified random sample basis for the field investigation. However, 38 units could not be covered in this study for obvious reasons. During the field investigation it was found that 8 units were not functioning, 5 units were not found in their recorded addresses, 7 units gave incomplete information, 4 units gave information of doubtful authenticity, and 14 units refused to cooperate. Thus, out of 130 selected sample industrial units, 38 units could not be covered in this study, and thus the field survey was confined to only 92 units. The data collected through field survey are provided in Table No. A-1,which is appended to this research paper.

II. SPECIFICATION OF THE MODELS

After the variables have been identified and data collected, the next step is to specify the form of function. The most common specification is a linear relationship, which assumes the dependent variable to change linearly with changes in each of the independent variables. In this study, an attempt is made to determine the impact of institutional finance on industrialization. As there is no unique measure of industrialization, gross output and employment generated by the sample industrial units were treated as tangible outcomes of industrialization. Econometric techniques were used to analyze the impact of policy variables on industrialization. A multiple regression model is specified hypothesizing a functional relationship between industrialization and its various determinants. A functional relationship containing two or more independent variables is known as a multivariate regression model or multiple regression equation. Linear regression is a mathematical device to find out the cause-and-effect relationship between two sets of variables, i.e., dependent and independent variables. The ordinary least square (OLS) technique is employed to estimate the values of the variables involved. The OLS method is an extremely useful tool in social science research, especially in studies relating to problems of business and industry involving predictions. In order to pursue the objectives mentioned above, a regression equation of the following type is applied to the data collected from the primary source through field survey.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \ldots\ldots\ldots\ldots\ldots\ldots \beta_n X_n \ldots\ldots\ldots\ldots$ (1)

Where;
Y = Dependent Variable
β_0 = Constant (Intercept)
X_1, X_2, X_3 = Independent Variables
β_1 = Regression co-efficient relating to X_1
β_2 = Regression co-efficient relating to X_2
β_3 = Regression co-efficient relating to X_3
β_n = Regression co-efficient relating to X_n

The data collected through field investigation was available only in respect of gross output generated by the sample industrial units in terms of rupee value and in terms of number of persons employed. In this study gross output is denoted as "Q" and employment is denoted as "N" and these two variables are treated as dependent variables. The independent variables included in this study are: Total fixed Capital(C), Total working capital (W_c), Fixed Capital from OSFC (Cs) Fixed Capital from IPICOL (C_I), and fixed capital from other financial institutions (C_o). Using the independent variables in alternative sets, the following models were specified.

$Q = \beta_0 + \beta_1 C + \beta_2 W_c \ldots\ldots\ldots\ldots\ldots\ldots$ (2)
$Q = \beta_0 + \beta_1 C_s + \beta_2 C_I + \beta_3 C_0 \ldots\ldots\ldots\ldots\ldots\ldots$ (3)
$Q = \beta_0 + \beta_1 C_s + \beta_2 C_I + \beta_3 C_0 + \beta_4 W_c \ldots\ldots\ldots\ldots\ldots\ldots$ (4)
$N = \beta_0 + \beta_1 C_s + \beta_2 W_C + \beta_3 C_0 \ldots\ldots\ldots\ldots\ldots\ldots$ (5)
$N = \beta_0 + \beta_1 C + \beta_2 C_s + \beta_3 C_I + \beta 4 W_c \ldots\ldots\ldots\ldots\ldots\ldots$ (6)
$N = \beta_0 + \beta_1 W_c + \beta_2 C_s \ldots\ldots\ldots\ldots\ldots\ldots$ (7)

III. ESTIMATED INDUSTRIAL FUNCTION

Econometrics gives empirical content to theory. This is done through fitting a line or a curve to historical data (time series and/or cross section) on variables involved in the theoretical model. The estimates for industrial function use cross section data covering seven blocks of undivided Puri district in the state of Orissa, The theoretical model as provided in the previous section is estimated. The common practice for estimating such model is to apply the Ordinary Least Square (OLS) method to a number of alternative forms of each stochastic equation and to choose the best equation of the model. Several alternative specifications both in terms of the functional forms and the grouping of independent variables were estimated by the OLS method. But most of the regression runs did not provide satisfactory results. As such, the findings of the models could not be accepted. Some of the obvious reasons for not accepting the models are mentioned below:

The economic theory behind the specification of the model is not properly explained by the models. We assume that a causal relationship exists between the dependent variable and independent variables which must properly explain the change in the dependent variable. But by examining the findings it was ascertained that production of sample industrial units was not properly explained by variables like working capital (WC) provided by commercial banks. In discussion with some proprietors it was ascertained that working capital finance was used to procure fixed assets like motor cars.

In some cases the signs of the regression coefficients are not found in conformity with economic theory. For example, an increase in fixed capital must be followed by an increase in the number of persons employed in factory units. But the statistical findings revealed a negative sign for the estimated employment function with capital co-efficient. Hence, such a model could not be accepted.

In some models the coefficient of determination (R^2) did not give satisfactory results. As the coefficient of determination provides the explanatory power of the model, an insignificant value of R^2 reveals that the independent variables have not properly explained variations in the dependent variable.

In some cases, it was found that the independent variables are not really independent of each other, but are assumed values that are jointly or simultaneously determined. This is a problem of simultaneous relationship or multi-colinearity among the independent variables. Under such a condition the least square procedure tends to yield highly unreliable estimates of the regression coefficients.

In some cases, the problem of autocorrelation was noticed. One of the assumptions underlying the regression model is that the error term must be an independent random variable. This provides that the regression equation produces no predictable pattern in the successive values of the error term. The existence of a significant pattern in the successive values of the error term constitutes autocorrelation. In this research the Durbin-Walton test (DW) was applied to determine whether the error term was auto-correlated or not. In some models the DW statistics assumed a value which indicated the presence of auto-correlation. As a matter of fact, the overall measure of goodness of fit and the explanatory power of the regression equation such as the co-efficient of determination (R^2) did not provide reliable information as to the significance of the economic relationship obtained. These models were rejected.

However, on the basis of the economic theory and statistical inferences, estimation results of the selected forms of the equations specified in the previous section of this paper are accepted. The primary data collected through field investigation, which are provided in Table No. A1 and appended to this research paper were processed with the help of computer runs. The major findings of this research are provided in the following tables followed by analyses.

T: R. 1 (Dependent Variable N)

Independent Variable	Regression Co-efficient	T-Value	Co-efficient of Correlation (r)	Co-efficient of Determination (R^2)	Standard Error of Estimate (SEE)
Constant	-265.519	-	-	-	-
Fixed Capital	1.0395	** 2.19134	0.8244	0.6794	0.3565

{n=6, df=4, ** Significant at 5% level)

In the above table, the impact of the fixed capital on employment (N) is determined. The R^2 assuming the value of 0.6794 indicated that the dependent variable 'employment' is explained to the tune of 68 percent by the independent variable. The regression co-efficient has assumed the value of 1.0395. This reveals that investment in fixed capital has positively influenced employment. A unit change in fixed capital brings about 1.0395 unit change in employment in the same direction. All the regression co-efficients have assumed their postulated signs and the t-statistics has assumed a value which is significant at 5% level. Hence, investment in fixed capital has really encouraged employment in the industrial sector.

T: R. 2 [Dependent Variable – Q]

Independent Variable	Regression Coefficient	T- Value	Coefficient of correlation (r)	Coefficient of Determination (R^2)	Standard Error of Estimate (ESS)
Constant	824.4507	-	-	-	-
Fixed Capital (C)	0.3737	** 1.1454	0.4969	0.5970	0.50008

(n = 6, df = 3, ** Significant at 5% level)

In terms of the above table, β_0, which is the intercept, has assumed the value of 824.4507. This has no relevance to empirical research because in terms of the postulated theory the constant term will influence the dependent variable only when the independent variable assumes the value of zero. As the independent variable has assumed the value of 0.5737, the value of β_0 is irrelevant for the purpose of analysis. It is interesting to note that output (Q) is increased by Rs. 537.00 when a sum of Rs. 1000.00 additional investment is made in the form of fixed capital. In other words, fixed capital alone has explained gross output from the industrial sector to the tune of 57 percent. Another interesting finding relates to the value assumed by the coefficient of correlation which stands at 0.4969. This indicates that there is a positive correlation between output and fixed capital investment. This positive correlation further suggests that the state-level development banks like the IPICOL and OSFC have played their role effectively by providing finance in the form of fixed capital to the sample industrial units covered in this study. Further, such a finding has an important policy implication that in future more investment should be made in fixed capital for industrial growth of the state which has vast industrial potential. It can be mentioned here that capital flow to Orissa is usually slow on account of poor infrastructural facilities. The state government is required to take effective steps in this direction so that more investment fund will flow to the state from outside the state.

T: R. 3 [Dependent Variable (Q)]

Independent Variable	Regression Co-efficient	T-Value	Coefficient of correlation(r)	Coefficient of Determination (R^2)	Standard Error of Estimate (ESS)
Constant	503.814	-	-	-	-
Working Capital (c)	7.879	** 4.3207	0.9074	0.8235	1.8236

(n=6, df=4, ** Significant at 5% level)

In this table, the impact of working capital on gross output is determined. In terms of the findings provided in the table, the relationship between gross output and working capital can be mentioned as follows:

Q = 503.814 + 7.879 Wc

This is an encouraging finding which indicates that one unit change in working capital brings about eight units of positive change in gross output. In other words, the relationship between working capital and gross output can be shown in the form of the following equation:

1Wc = 7.879 Q

Thus, the commercial banks have done a very good job in providing working capital to the sample industrial units. Another interesting finding of this table relates to the co-efficient of correlation between Wc and Q (rQ = 0.9074). This reveals a high degree of positive correlation between gross output and working capital. The coefficient determination (R^2) assumed the value of 0.8235. This indicates that the equation has a very high explanatory power and the independent variable explains the change in dependent variable to the tune of 82 percent.

T. R.4 [Dependent Variable – N]

Independent Variable	Regression Co-efficient	T-Value	Coefficient of correlation(r)	Coefficient of Determination (R^2)	Standard Error of Estimate (ESS)
Constant	-273.829	-	-	-	-
Fixed Capital (c)	1.01038	** 1.94002	0.8249	0.6805	0.5208
Working Capital (c)	1.01038	** 0.09143	-	-	0.2838

(n=6, df=3, ** Significant at 5% level)

In this table the regression coefficient relating to capital and working capital are determined and their contributions to employment generation are ascertained. The contribution of both fixed capital and working capital to employment generation can be stated in the following equations:

IC=1.0103 N ...... (i)
IWC=0.3581N.....(ii)

The above equations indicate that both fixed capital and working capital have positively influenced the employment function. The coefficient of determination (R^2) has assumed the value of 0.6805. This shows that the dependent variable has been explained by the independent variables to the tune of 68 percent, which is reasonably satisfactory. But the values assumed by both β_1 and β_2, which represent both fixed capital and working capital respectively do not make a significant contribution to employment. Discussions with the entrepreneurs revealed that investment on fixed capital was used to install high-tech plant & machinery and the working capital finance was mostly used to purchase fixed assets required for office administration. However, within a period of 3-5 years, full capacity can be utilized which will certainly provide scope for generation of additional employment in the sample industrial units under study.

T. R. 5 [Dependent Variable – Q]

Independent Variable	Regression Co-efficient	T-Value	Coefficient of Correlation (r)	Coefficient of Determination (R^2)	Standard Error of Estimate (ESS)
Constant	759.588	-	-	-	-
Fixed Capital from OSFC(Cs)	-0.4289	0.7628	0.9976	0.9953	0.5623
Fixed Capital from IPICOL(C_1)	0.3297	0.8254	-		0.3994
Fixed Capital from others(Co)	-0.7943	5.1721	-		0.1536
Working Capital from banks (Wc)	7.7029	**4.0127	-	-	0.9997

(n=6, df=1 ** significant a 5% level)

In terms of the findings presented in the above table, the financial assistance provided by Orissa State Financial cooperation (OSFC), Industrial Promotion and Investment Corporation of Orissa Ltd. (IPICOL), and other financial institutions providing fixed capital along with the working capital provided by the commercial banks are taken as the independent variables, and their impact on the dependent variable, i.e., gross output, is determined. The contribution of these variables on gross output can be stated in the form of the following equation:

$$Q = 579.588 - 0.489Cs + 0.3297\,C1 - 0.7943\,Co + 7.7029\,Wc \text{------ (iii)}$$

In terms of the above findings, it is ascertained that OSFC and other financial institutions providing fixed capital to industrial units in Orissa have not facilitated the process of industrialization in Orissa commensurate to the expectations pinned on them. It is disheartening that the fixed capital provided by OSFC and other financial institutions have made a negative contribution to gross output. On inquiry, it was ascertained that OSFC has not properly provided financial assistance. In many cases there was an undue delay in providing the sanctioned finance, and actual disbursement was much lower than the sanctioned amount. The other financial institutions also have not done their work efficiently. One interesting finding relates to the fixed capital loan provided by the IPICOL, which has made positive contribution to gross output. IPICOL has followed a pragmatic and realistic approach in its lending policies. Timely disbursement of loan is one important factor that this organization has taken into account. The findings relating to the working capital finance provided by the commercial banks are encouraging. It is heartening to mention that working capital finance has made a positive contribution to the gross output. In Orissa, working capital has always been a great problem for the entrepreneurs. But this study reveals that the commercial banks, particularly the lead banks, have done a commendable job in providing working capital to industrial units.

IV. CONCLUSION

This paper has attempted to specify and estimate econometric models to determine the status and determinants of industrialization in the state of Orissa. This is an empirical study and uses primary data collected through field survey. The collected data pertains to the financial assistance provided by state level development banks and other financial institutions providing fixed capital to industrial units in Orissa. In addition, the role of commercial banks in providing working capital finance to the industrial sector is also ascertained. All these factors are taken as independent variables to ascertain the specific contribution of these financial institutions and the commercial banks to industrial development of the state of Orissa. There is no unique measure of industrialization. In this study two important measures, namely, gross output from the industrial sector and employment generated by the sample industrial units are taken into consideration. An attempt has been made to prove a cause and effect relationship between industrialization and industrial finance. Stochastic models have been formulated and estimated with the help of computer runs to find out a functional relation between dependent and independent variables. The major findings of this research are summarized below.

The plan efforts for industrialization in Orissa have resulted in diversification of composition of industries. From traditional agro-and-forest-based industries, the state has been able to establish non-traditional industries like chemicals, basic metals, electronics, and hotels. An analysis of the computerized data collected from sample industrial units of the undivided Puri district of the state indicates that the state level development banks have initiated various institutional measures for industrial promotion. The findings indicate that institutional finance has made a positive contribution to both gross output and employment. The findings reveal that the financial assistance provided by the commercial banks have made a significant contribution to the process of industrialization in Orissa. In fact, the commercial banks have made a tremendous contribution by providing easy and cheap working capital loan to the industrial units. Empirical findings reveal that additional working capital finance to the tune of only Rs. 100.00 has helped the sample entrepreneurs to increase their gross output by Rs. 770.29. Among the development banks, the IPICOL has made a substantial contribution to the industrial development of the state. Empirical findings further reveal that an additional investment of Rs. 100.00 only has raised gross output by Rs. 37.97. The findings of this research also suggest that investments in both fixed and working capital have positively influenced employment function. Although this study is conducted in respect of 92 sample industrial units, the findings of the study can be used to make an overall estimation of the industrial profile of the state as a whole.

APPENDIX – I

Table A-1

Distribution of assistance availed by sample industrial Units

(Rs. in Lakhs)

Sl. No.	Industry Type	No. of	Fixed Capital	Fixed Capital	Fixed Capital from other	Total Fixed	Working Capital from	Total Employment	Gross Output
1	2	3	4	5	6	7 (4+5+6)	8	9	10
1	Cotton	9	969.40	372.90	1,178.23	2,520.53	215.01	3,149	1,590.15
2	Chemicals	12	736.84	332.78	74.40	1,144.02	85.66	1,215	1,422.04
3	Basic Metal	07	347.28	195.55	628.00	1,170.83	122.96	586	1,298.13
4	Electrical / Electronics	16	1,537.46	624.09	372.87	2,534.42	318.63	2,029	3,223.09
5	Hotels	23	1,444.59	928.49	243.87	2,616.95	132.06	1,975	1,621.49
6	Misc.	25	1,278.98	747.29	79.52	2,105.79	259.65	2,024	2,740.05
	Total	92	6,314.55	3,201.10	2,576.89	12092.54	1,124.97	10,978	11,884.95

Source: Field Survey

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CUSTOMER SERVICE QUALITY IN THE INDIAN BANKING SECTOR

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ABSTRACT

The banking sector is one of the biggest service sectors in India and nowadays, banking sector is out to attract the biggest market of Asia in investment. The banking sector is focusing more on relationship development and providing efficient services to its customers.

The Indian Banking System is very old consisting of various public sector financial institutions such as the Reserve Bank of India, State Bank of India, Punjab National Bank, etc. and some new private sector players like ICICI and HDFC, etc. The Reserve Bank of India was set up under the R.B.I. Act 1935, and was subsequently nationalized after independence on January 1, 1949. Since then, it is playing a vital role in controlling the independent Indian Economy. Now many other financial institutions have come into existence with the objective of serving the people by catering to their financial and economic needs.

The most important factor contributing to their success is the service delivery of their products and the satisfaction of the customers. The quality of services provides the thrust in the success of the banking industry and has proved to be advantageous in the present day cut throat competitive market. Quality implies higher speed, higher efficiency at a lower cost. Therefore, the leading banks are taking special care of customer relationships and thereby providing them with the best and varied services.

This paper tries to find out whether in the present scenario the banks are providing efficient services or not, and whether they have been able to satisfy their customers.

Banking is one of the leading industries in Asia. It has spread its web in almost all parts of the continent, and India is also not untouched. The Indian Banking System is a financially stable system passing through a stage of rapid transformation. In the present situation, banking in India has attained a fair amount of maturity in terms of supply and product range to attract the customers.

Today the scenario of the banking system has changed from branch banking to bank banking i.e. the customers today are no more the customers of a branch. The banks today are focusing more on relationship development and providing efficient services to their customers.

Banking in India originated in the last few decades of the 18th century. But the oldest bank in existence was the Imperial Bank of India established in 1921. This bank after independence became the State Bank of India.

By the 1960's, the Indian banking industry had become an important tool for facilitating the development of the Indian economy. With the nationalization of 14 banks in 1969, banks have tried to bring about financial sector reforms, changes in regulations, new technology and global competition to provide products like merchant banking, leasing, mutual funds, venture capital etc. to the customers.

Thus a bank being an important institution of modern business world serves as a barometer of the country's economic progress. The banking sector comprises public sector banks and private sector banks, and both are rendering services to the customers.

Today the emphasis is on customer relationship by providing the customers the best services of various types with which maximum benefits can be availed by them.

A customer is the most important person ever in the bank premises. He is not dependent on the bank personnel ... rather they are dependent on him. A customer is not an interruption of their work ... he is the purpose of it. The bank employees are not doing any favour to the customers, but are obliged by them. A customer is not someone to argue or match wits with. Nobody ever won an argument with a customer. He is a person who brings to the bankers his needs and it is their job to handle them profitably.

The above observations of Mahatma Gandhi conclude that the customer should be treated like a king.

A bank is no longer a mere outlet offering traditional services of accepting deposits and granting loans and advances. Banks now have been given an image designed to spark confidence in the customer and kindle his desire to drop in and pay a call on his banker.

Customer service is probably the most widely used but least practised term in the present day management. Customer service is also provided by all types of companies and institutions but the quality of customer service is essential for building customer relationship. Here quality signifies faster speed in doing the work and efficiency of the employees at a lower cost. Customers perceive services in terms of the quality of the service and how satisfied they are overall with their experience.

Today the quantitative scope of banks has expanded a lot. Banks offer a wide range of products and services for customer attraction. Some of them are:-

(i) Core Banking Solution

Banks provide anytime anywhere banking facility for the customers. With the core banking system, a customer can access his account from any branch of the bank throughout the country in which he has an account. The branch may not be the same branch in which he has an account.

(ii) Internet Banking

Net banking services are the bank's services which provide access to accounting information, products and other services as advised by the banks through the internet. Through the internet, services like bill payment, booking of railway tickets, shopping through banks, etc. can also be done.

(iii) ATM services

By using ATM (Automated Teller Machine) services, a customer can make cash withdrawals from his saving account at any time desired. The customer can withdraw amounts, deposit cash, make payments like hostel fees, topping up mobiles, etc.

(iv) Phone Banking

By this facility, the bank provides the customer the facility of carrying out banking transaction by giving instructions through Interactive Voice Response System or Phones to a Banking Officer. The transactions offered include balance enquiry of the saving accounts, request for cheque books, cheque status etc.

(v) Electronic Payment System

Electronic Payment system is a method of directly crediting the dividends to the shareholder's bank accounts by electronic transfer without the medium of a warrant.

(vi) Cheque Processing System

Banks have started providing facility of collecting cheques from customers at various centers. All the cheques are collected in properly introduced accounts and sent for collection on the same day or the next day.

Although banks are providing the above mentioned services and many more, and the quantity of services provided is continuously increasing, their quality is deteriorating. Many of the bank personnel either themselves do not know how to access these services or are not able to guide the customers properly, which shows lack of efficiency in the employees. Further, the time taken in providing the service is long. Services like cash withdrawal and cheque processing take a long time to be accomplished. The speed of accessing the services should also be improved. Efforts have to be made to improve the quality of banking services, i.e. higher efficiency, lower cost, and high speed.

The results of a comparative study of the services provided by Public Sector Banks and Private Sector Banks were as follows:

1. The number of ATM centers in terms of coverage is much more in private sector banks as compared to public sector banks.

2. Private sector banks were the pioneers in launching the services like Core Banking Solution, Internet Banking, Phone Banking, Mobile Banking etc.

3. Agriculture-based services are provided more effectively by public sector banks as compared to private sector banks.

4. Services like ATM, Credit Card, Internet Banking, Mobile Banking, Phone Banking, Quarterly Statement are provided free of cost by Public Sector Banks while the private sector bank are charging fees for them.

These facts lead to the conclusion that as far as services are concerned, Private Sector Banks are providing more and even better services but as far as charges are concerned Public Sector Banks think more of the customer's interest.

Another study about the level of customer satisfaction from the banking services was done with the hypothesis:

h_0 = customers are not satisfied with the banking services.
h_1 = customers are satisfied with the banking services.

A questionnaire comprising 25 questions about the level of customer satisfaction from the services rendered by commercial banks was prepared and 100 respondents were asked to rank these questions on an intensity scale of one to five. Highly satisfied had to be ranked 5, followed by satisfied, neither satisfied nor dissatisfied, dissatisfied and highly dissatisfied with 4,3,2,1 respectively. The sampling technique used in this study was convenience sampling.

Table 1 depicts the findings about the satisfaction of customers from the various services provided by commercial banks. Column-1 of the table shows the various reasons of satisfaction/dissatisfaction. Column-2 shows the total satisfaction ranked as 1, 2, 3, 4, 5 at various levels by 100 respondents for each service and Column-3 shows the average satisfaction.

Table 1
SATISFACTION OF THE CUSTOMERS

Reasons for satisfaction / dissatisfaction	Total satisfaction at various levels	Average
Service Charges	308	3.08
Time taken for opening account	294	2.94
Speed of withdrawal	304	3.04
Speed of depositing Money	320	3.20
Décor of bank	302	3.02
Interest on savings/loans	285	2.85
Computerization of the bank	324	3.24
Bank's innovativeness in introducing new series.	328	3.28
Bank's parking place	220	2.20
Atmosphere in the bank	290	2.90
Bank's publication regarding services and performance	213	2.13
Banker – Customer meet	192	1.92
Attitude of the staff towards customers	240	2.40
Location of the Banks	266	2.66
Knowledge of the bank employees regarding bank service	273	2.73
Efficiency of the staff	274	2.74
Availability of the staff	237	2.37
Layout of the bank	237	2.37
Sitting facility	223	2.23
Bank's advertising regarding services	193	1.93
Cash Credit facility	196	1.96
Management of Banks	180	1.80
Genuineness of overdraft facility	196	1.96
Reputation of Banks	182	1.82
Quality of services	178	1.78

Thus, from Table-1 it can be assessed that the customers are getting maximum average satisfaction from the innovativeness of the banks in introducing new services i.e. 3.28 and the lowest satisfaction from the quality of services i.e.1.78. Hence it can be seen that the quality of services is deteriorating.

Methods of calculation of total satisfaction

Formulae: Total satisfaction : Σfx

Average satisfaction : $x = \frac{\Sigma fx}{N}$

where f = number of customers in each level

x = various levels of satisfaction

i.e. Highly Satisfied – 5

Satisfied – 4

Not satisfied – 3

Dissatisfied – 2

Highly dissatisfied – 1

N = total number of customers i.e. 100

From the findings of Table 1 the classification of the services as moderate, slight, and least satisfied has been done in Table 2.

Table 2
SATISFACTION OF THE CUSTOMERS

Reasons for satisfaction / dissatisfaction	Average Score (determined from Table3)
A Moderate Satisfaction	
Bank's innovativeness in introducing new services	3.28
Speed of depositing money	3.20
Computerisation of banks	3.24
Service charges	3.08
Speed of withdrawal	3.04
Décor of the bank	3.02
B Slight Satisfaction	
Time taken for opening an account	2.94
Atmosphere of the bank	2.90
Interest on saving/loan	2.85
Efficiency of the staff	2.74
Knowledge of the bank employees (services)	2.73
Location of the banks	2.66
Attitude of the staff towards the customers	2.40
Layout of the banks	2.37
Availability of the staff at respective counters	2.37
Sitting facility in the bank	2.23
Bank's parking place	2.20
Bank's publications regarding services	2.13

C	**Lowest Satisfaction**
Cash Credit Facility	1.96
Overdraft facility	1.96
Bank's advertising regarding services	1.93
Banker – customer meet	1.92
Reputation of the bank	1.82
Management of banks	1.80
Quality of services	1.78

From Table 2 it can be concluded that none of the reasons of satisfaction / dissatisfaction was found to be ranked 4.00 or above. Out of 25 reasons of satisfaction / dissatisfaction, customers were moderately satisfied with 06, slightly satisfied about 12, and 07 denotes least satisfaction among them. This shows that the customers are more or less dissatisfied with the working of the banks they have their accounts in.

Table 3 below helps in rating the average satisfaction level of the customers as highest, moderate, slight, and lowest i.e. if the average satisfaction is between 4.00 - 5.00 customers are highly satisfied, if between 3.00 - 3.99 customers are moderately satisfied, if between 2.00 - 2.99, slightly satisfied, and if between 1.00 - 1.99 least satisfied.

Table 3
DETERMINATION OF AVERAGE SATISFACTION LEVEL OF CUSTOMERS

Average	*Satisfaction Level*
4.00 – 5.00	Highest
3.00 – 3.99	Moderate
2.00 – 2.99	Slight
1.00 – 1.99	Lowest

Thus the hypothesis h0 which states that the customers are not satisfied with the banking services, is proved correct. The hypothesis is again tested by a statistical tool $\chi 2$ test at 5% level of significance in Table 4.

Table 4
DATA AND CALCULATION OF χ^2 TEST

X	$(x - x)$	$(x - x)^2$
3.08	0.58	0.3364
2.94	0.44	0.1936
3.04	0.54	0.2916
3.20	0.70	0.4900

3.02	0.52	0.2704
2.85	0.35	0.1225
3.24	0.74	0.5476
3.28	0.78	0.6084
2.20	-0.30	0.0900
2.90	0.40	0.1600
2.13	-0.37	0.1369
1.92	-0.58	0.3364
2.40	-0.10	0.0100
2.66	0.16	0.0256
2.73	0.23	0.0529
2.74	0.24	0.0576
2.37	-0.13	0.0169
2.37	-0.13	0.0169
2.23	-0.27	0.0729
1.93	-0.57	0.3249
1.96	-0.54	0.2916
1.80	-0.70	0.4900
1.96	-0.54	0.2916
1.82	-0.68	0.4624
1.78	-0.72	0.5184

The total average satisfaction (x) from the Table 4 column 1 is 62.55. The mean average satisfaction is 2.5 and the standard deviation (δ^2) is 0.249. The calculated value of χ^2 is 24.96 while the tabulated value of χ^2 distribution with 24 degree of freedom (25-1) is 36.415.

Formulae:

$X = \Sigma x / n$

$\chi^2 = \Sigma(x-x)^2/\delta^2$

$\delta^2 - [\Sigma(x-x)^2/n]-[\Sigma\{(x-x)/n\}^2]$

where

x = the average satisfaction of customers given in table

n = total number of factors / reasons i.e. 25

Since the calculated value of χ^2 is less than the tabulated value of χ^2 for 24 degree of freedom at 5% level of significance, it is not significant. Hence hypothesis h_0 is accepted i.e. the customers are not satisfied with the banking services.

Thus, from the above study it is evident that although the quantitative level of customer service in Indian banks has increased, their quality is deteriorating. Banks should improve their quality in order to retain their customers. Public Sector Banks should improve their quality in order to be in contention with the Private Sector Banks because a large section of the Indian population still trusts Public Sector Banks. At the same time there is the need that Private Sector Banks should review their charges and rationalise them so that the customers start getting good quality services at reasonable charges. This calls for a change in the attitude of the banks in both the two sectors. Banks should realise that they are for the customers.

People orientation in handling services is the need of the hour. When this is done, even the ultimate profitability of the banks will rise. When profits rise, overall happiness will increase. Thus overall satisfaction of customers, employees and banks will follow.

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REVENUE RECOGNITION IN SOFTWARE SECTOR

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ABSTRACT

Revenue is the most important component of any financial statement. It presents the financial performance of an organization for a given period. It helps us in assessing the changes that have taken place in economic resources and in predicting the capacity of the company to generate internal cash flows. Profit or (Loss) of an organization is determined by matching expenses with income. Income is the top line of the profit-and-loss account. This is the line which every user of financial statements looks at in order to know the size of operations of the company. Hence, proper recognition of income is of primary importance. In this paper, an attempt has been made to compare the relevant accounting standards on revenue recognition under Indian Accounting Standard-9 with IAS-18 and pronouncements under US GAAP. The second objective of this paper is to examine closely the extent of adoption of revenue recognition methods followed by a few selected Indian software companies like Infosys, Satyam, WIPRO, and TCS.

An effort has been made in this paper to examine these companies' practices of revenue recognition as regards fixed price contract, fixed time frame contract, time-and-materials basis contract and multi-element contracts. This paper has also made an attempt to make a comparison of differences in revenue under Indian GAAP and US GAAP. This paper observes that although there is no dearth of standards and guidelines at national and international levels, inadequacy of the standards is felt when issues like 'sale of software along with hardware', 'buy back transactions', and 'barter transactions' come up. It is suggested that in order to remove these inadequacies or inconsistencies, as far as possible, all the pronouncements and guidelines on this important issue of 'revenue recognition' should be brought to a common platform.

INTRODUCTION

Revenue is the lifeline of any enterprise. It is also the lifeline of country and its Government as well. The Law Lexicon defines Revenue as the tax earnings of the Government.

The tax earnings are dependent on the earnings of a tax payer and the earnings of a tax payer can be defined as the revenue. Hence revenue has been defined as the gross inflow of cash, receivables or other considerations arising from rendering of services in the course of ordinary activities of an enterprise.

Recognizing what should be revenue and what should not be, when the same is to be treated [in the nature of] as an item of revenue and when [in the nature of] as an item of capital, at what point of time the same is to be treated as an item of revenue and upto what point of time the same can be treated as an item of capital, has constantly drawn conflicting opinions. In fact, the rapid changes and developments in the Service Sector has thrown open more questions than answers, especially regarding the timing of recognition of the revenue.

This has also been used by the management of different companies for window dressing/tailoring the Financial Statements. Stock prices can be manipulated by showing higher revenue earnings. Many companies and investors have suffered due to the frauds involving erroneous recognition of revenue. This has made Revenue Recognition all the more important for further study and analysis.

Revenue recognition is the process of incorporation of various items of revenue that have been earned during the accounting period, irrespective of the fact that it has not been earned in cash (Accrual basis, and not cash basis accounting). It ultimately affects the size of the profits the organization is going to earn, which again has a direct bearing on the taxation and dividend decisions. The need to recognize also arises because of the matching principle which also implies that revenue should not be recognized until its matching costs have been identified.

International Accounting Standard-18 and Indian Accounting Standard-9 have tried to deal with this complex issue. IFRS and US GAAP as well as UK FRS-5 (Application note-G) have also tried to iron out the difference of interpretations on the same issue.

Despite the above standards and application note, there exist differences in revenue recognition under the same sector.

"Companies undertake business in many different ways and there is no substitute for reviewing your own revenue recognition model".

Against this backdrop, we have tried to analyze the issue of revenue recognition in the service sector.

The Service Sector can be broadly divided into the following categories:

- **I. IT Services**
- **II. Financial Services**
- **III. Hospitality Industries**
- **IV. Entertainment Industries**

In our discussions we have focused exclusively on practices of revenue recognition in the IT Sector.

OBJECTIVES:

The objective of this paper is:

1. **To compare the relevant Accounting Standard in India with IAS-18 and pronouncements under US GAAP**
2. **To examine the adoption of revenue recognition methods by a few selected Indian Software companies**

Relevant Standards: Comparison On Specific Issues

I. DEFINITION:

**According to AS-9 "revenue" is defined as gross inflow of cash, recoverables or other considerations arising in the course of ordinary activities of an enterprise from the sale of goods, from rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends.

**IAS -18 defines "revenue" as the gross inflow of economic benefits during the period arising in the course of ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contribution from equity participants. (1)

**US GAAP - It focuses more on revenues being realized (either converted into cash or cash equivalent, or the likelihood of its receipt being reasonably certain) and earned (no material transaction remains pending and the related performance has occurred).

On a comparison of AS-9 and IAS -18, it is observed that AS-9 is specific in respect of inflows(such as cash and receivables), whereas IAS-18 is indicative. IAS -18 defines revenue as inflow of economic benefits that increase equity (other than contributions from equity participants).

The question that arises here is: 'Will inflow of revenue always result in increase in equity'? The answer to this question can be in three parts - it may either increase (profit earned), or may decrease (loss suffered), or may not affect the equity (where either there is no profit – no loss situation or the earnings are fully distributed and nothing is retained).

Under US GAAP there are a number of different sources of revenue recognition guidance such as FAS, SAB, SOP, EITF and AAER. Revenue represents actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's major on-going operations.

From the above definitions of revenue it is clear that revenue arises from rendering of services and it needs to be recognized. A variety of business activities fall under the service sector. Examples can be taken of Information technology service, Entertainment service, Financial service, etc.

(1) IFRS – Income is defined in the IASB's framework as including revenues and gains.

EXCLUSIONS:

Accounting Standard - 9 of ICAI on Revenue Recognition does not deal with the following;

1. Revenue arising from construction contracts (AS-7)

2. Revenue arising from hire purchase, lease agreements (AS-19)
3. Revenue arising from Govt. grants and subsidies (AS-12)
4. Revenue of Insurance companies arising from Insurance Contracts

II. METHODS OF REVENUE RECOGNITION:

There are three different methods of revenue recognition available under the aforementioned pronouncements.

A. AS–9 prescribes the following two methods:

1. Completed contract method: This method recognizes revenue in the statement of profit and loss only when the contract is completed or completed substantially. A service contract may consist of several activities. If performance of one activity or more than one activity is crucial to the completion of a service, and one or more activities have not been performed, then the performance is not deemed complete. Revenue is recognized only when the sole or final act takes place and the service becomes chargeable. This method is to be used only when proportionate completion method is not applicable.

2. Proportionate Completion Method:

This method is to be applied when performance consists of execution of more than one act. In this method revenue is recognized proportionately with reference to the degree of completion. When the number of contracts is indeterminate, revenue may be recognized on a straight line basis over a specific period of time.

The principles of this method have been adopted from AS –7 on Accounting for Construction Contracts. This Standard on Construction contracts is relevant not only for civil construction works such as buildings, roads, other infrastructure facilities including dams, waterways, tunnels etc., but also equally applicable to software developers. Companies like Satyam, Infosys, Wipro and TCS adopt the proportionate completion method.

B. IAS - 18 prescribes the Proportionate Completion method only. It has scrapped the **Completed contract method.**

C. Besides the above two methods, US GAAP recognizes one more method, "Completion of Production Basis".

Under US GAAP, this method recognizes revenue even if no sale is made. This applies to agricultural products and minerals under three grounds:

1. There is a ready market for these products with reasonably assured prices.
2. Units are interchangeable.
3. Selling and distribution does not constitute a significant amount in determination of cost.

CASE STUDY:

In this context we have selected 4 major Indian Software Companies, namely, **Infosys, Wipro, TCS, Satyam,** and tried to understand the methods adopted, point of recognition, reporting and compliance practices followed while recording the transactions and preparing the financial statements.

The practices followed by the four major companies with regard to revenue recognition are as follows.

1. Infosys: It has adopted the method of percentage of completion for Revenue recognition.
2. Wipro: Same as that of Infosys
3. TCS: Same as that of Infosys
4. Satyam: It follows the same method as that of the other three, but in addition it also follows ***'Completed Contract Method'*** where the ***'Work To Complete'*** cannot be reasonably estimated.

III. POINT OF RECOGNITION

According to AS-9, revenue from sale of goods is recognized when the seller has transferred the property in goods to the buyer for a consideration, or all risks and rewards of ownership have been transferred to the buyer. The principle relating to recognition under rendering of services have been discussed above.

IAS-18 states that the revenue arising from rendering of services shall be recognized provides that
1. the amount of revenue can be measured reliably;
2. it is probable that the economic benefits will flow to the seller;
3. the stage of completion at the balance sheet date can be measured reliably;
4. the costs incurred or to be incurred in respect of the transactions can be measured reliably.

When the above criteria are not met, revenue arising from the rendering of services should be recognized by adopting "cost-recovery" approach.

IAS- 18 (Revised) also states that the stage of completion can be determined by:
1) survey of work performed
2) ratio of service performed till date to total service, and
3) proportion of costs incurred till balance sheet date to total estimated costs

Under the pronouncements of US GAAP, revenue is identified from the following sources, namely:
1. Revenue from selling inventory is recognized as on the date of sale.
2. Revenue from performing services is recognized when services have been performed and are billable.

Exception:
US GAAP does not recognize revenue at the point of delivery where:
1. there is a "Buyback Arrangement" , and
2. there exists a "Right to Return"

These exceptions are noteworthy.

The technique of software revenue recognition is provided in AICPA Statement of Position No. 97-2. It provides that revenue should be recognized in accordance with contract accounting when the arrangement requires significant production, modification or customization of the software. When the arrangement does not entail such requirements, revenue should be recognized provided the following conditions are fulfilled.
1) Receipt of payment is probable;
2) The selling price is fixed or known;
3) The software has been delivered ; and
4) The contract is enforceable.

Revenue Recognition for a Barter Transaction

At times recognition of revenue becomes difficult due to absence of guidance. *"Example can be taken of "Barter Transactions" such as oil for food. Laser Limited sold its ERP package to a travel agency not for money but for " low price holiday" for 20 of Laser's employees."

AS – 9 is silent on revenue recognition in case of barter transactions. In this connection IAS-18 states that revenue from barter transactions should be recognized only if there is an exchange of dissimilar goods or services , provided the value is fair. However, the fair value of exchanged goods and services may not be readily measurable or available. In such a case, the carrying or book value of the exchanged products or service may be considered.

CASE STUDY

In this context we have selected 4 major Indian Software Companies namely **Infosys, Wipro, TCS, Satyam,** and tried to understand the reporting and compliance practices followed while recording transactions and preparing the financial statements:

A. Point of Recognition

I. Arrangements with customers for software development and related services are either on a fixed price, fixed timeframe or on a time and materials basis.

The practices followed by the four major companies are as follows.

1. Infosys: Revenue from software development on fixed price, fixed-time frame contracts where there is no uncertainty as to measurement or collectability of consideration, is recognized as per the percentage of completion method.

On time and materials contracts, revenue is recognized as the related services are rendered.
2. Wipro: Same as that of Infosys
3. TCS: Same as that of Infosys
4. Satyam: It follows the same method as that of the other three, but in addition it also follows ***'Completed Contrac** **Method'*** where the ***'Work To Complete'*** cannot be reasonably estimated.

II. Multi-Element Contracts:

1. Infosys: Revenue from the sale of user licenses for software applications is recognized on transfer of the title i the user license, except in multiple arrangement contracts, where revenue is recognized as per the percentage o completion method.
2. Wipro: Maintenance revenue is considered on acceptance of the contract and is accrued over the period of th contract.
3. TCS: Revenues from maintenance contracts are recognised pro-rata over the period of the contract
4. Satyam: Silent on this issue

B. SEGMENT REPORTING

1. Infosys: Primary segment is Industry classes as set out in the financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.
2. Wipro: Same as Infosys.
3. TCS: Primary segment is revenue by geography. Secondary segment is the basis of Industry classes.
4. Satyam: Same as Infosys.

C. COMPARISON OF DIFFERENCES IN REVENUE UNDER INDIAN GAAP AND US GAAP

1. **Forex Gains/(Losses):**

Wipro: The difference on account of forex gains or losses is primarily on account of difference in the treatment of market to market gains or losses on premium on forward contracts designated as hedges. As per the Indian GAAP, the contract date premium/discount on forward contracts designated for forecast cash flows is amortized over the life of the forward contract. There is no such requirement under US GAAP.

Indian GAAP: The contract date premium/discount on forward contracts designated for forecast cash flows is amortised over life of the forward contract.

US GAAP : No such requirement is to be accounted in full in the year of occurrence.

Infosys: Gain / loss on forward foreign exchange contracts

Indian GAAP: Until April 1,2004, Indian GAAP required the premium / discount on forward contracts to be recognized as income or expenditure over the life of the related contract.

US GAAP: Under US GAAP, the same is market-to-market as on the reporting date. The resultant gain / loss is recognized immediately in the income statement. With effect from April 1,2004, the company changed its accounting policy in India in line with the revised Accounting Standard 11 on forward contracts, and hence the company has decided to account for the forward foreign exchange contracts based on their designations as "effective hedges" or " not effective".

2. **Profit/(Loss) of Subsidiary Companies:**

Infosys: Profit / loss of subsidiary companies

US GAAP requires presentation of financial statements on a consolidated basis. It has four subsidiaries as on March 31,2006, namely, Progeon Limited,Infosys Technologies (Australia) Pvt.. Limited, Infosys Technologies (Shanghai) Co. Limited and Infosys Consulting,Inc.

3. **Amortization of Intangibles:**

Infosys: US GAAP requires the purchase price in business combination transactions to be allocated to identifiable assets and liabilities, including intangible assets. Intangible assets are to be amortised over the estimated useful life. The amortization relates to that of an intangible asset identified in allocation of the purchase price of expert information services.

Wipro: In US GAAP, a portion of the purchase consideration in a business acquisition will be allocated to intangible assets which will be amortised over the useful life of the intangible asset in proportion to the economic benefits consumed during each reporting period.

IV. DISCLOSURES:
In addition to the requirements under Accounting Standard –1 on Disclosure of Accounting Policies, it is also required under this Standard to disclose the revenues that have not met the recognition criteria and have been postponed.

CONCLUSION

The development of standards and pronouncements are always a continuous process. The complex nature of the contracts in the software sector has also attracted the regulators to publish standards and guidelines. However, important issues like sale of software along with the hardware, buyback transactions, and barter transactions need to be addressed under the Indian Accounting Standard for Indian Companies as well as International Companies. Inter-firm comparison may not be possible unless the standards are synchronized. This calls for a review of the existing Standards and pronouncements and suggests more stringent rules for revenue Recognition.
A study conducted in May 2006 through e-mail has found that almost 92% of public companies in India rely on manual processes to perform key revenue recognition and reporting functionality (nearly the same percentage is true for private companies). About 68% of all companies stated their Financials/ERP systems DO NOT automate all their revenue recognition and reporting activities. 84% of companies which initially stated Financials/ERP systems DO automate revenue accounting are actually using spreadsheets for these activities. Companies want to spend less time on data aggregation, manipulation and validation, and more time on business performance analysis.
In this era of Computerised Accounting and advanced versions of softwares to recognize revenue, it will not be out of place to mention here that the concept of using a chip to recognize revenue is not far off.

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TRANSFER PRICING REGULATIONS IN INDIA A NEED FOR SYNCHRONIZATION UNDER THE DISCLOSURE REQUIREMENTS

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ABSTRACT
The issues under transfer pricing are being addressed by academicians, intellectuals and professionals over the last half century, the first of its kind coming from Jack Hirshleifer in the year 1956. Though new theories have been written, and new models have been developed over these years, we are still in search of a perfect transfer pricing mechanism, which could protect the interest of the Revenue as well as be just to the tax payer. Both OECD and Internal Revenue Services of the USA have played a proactive role in developing useful guidelines. This paper aims at analyzing in detail the definition and scope of 'Associated Enterprise (AE)' under Income Tax Act and 'Related Parties(RP)' as per the Accounting Standard(AS) under the Companies Act. It examines the need for additional disclosure under AS 18 relating to TPR by undertaking an empirical study of 20 listed Indian companies, and reported case laws as well as reports of professionals and experts.

INTRODUCTION

"In a tax free world, internal transfer prices are to be set equal to the marginal cost of the supplying division", Hirshleifer stated this in the year 1956. Half a century down the line we are still in search of a perfect transfer pricing mechanism, which could protect the interest of the Revenue as well as be just to the tax payer. In the intervening years, many authors have tried to give different dimensions to this issue. Kenneth J Arrow(1964) in his article titled "Control In Large Organisations" used the concepts like 'economic content' and 'form of transaction' to demonstrate that a transaction can be (i) completely Internal, or (ii) internal but from one enterprise to another under the same management/control, or (iii) a normal commercial transaction. According to him, the control problem arises on choosing the correct prices in the second scenario, as each manager wants to maximize profit. In 1971, L.W.Copithorne stated that transfer prices are a useful tool in moving profit from one company to another, perhaps via a third company. He also echoed the views of Hirshleifer and mentioned that introduction of taxes on corporate profits as well as some policies of management can drive the transfer prices. The deliberations continued and in 1973 Sanjaya Lall tried to reason out the causes that could be compelling an MNC to shift the profit. He considered the impact of effective tax rates on repatriable profits, restrictions on repatriation, price controls on the output in either country, import duties, stability of the exchange rate of the two currencies etc. to be the major inductors for a planned transfer price which could help in shifting the profit. E.J.R. Booth and Oscar W. Jensen in 1977 tried to build upon the theory of Copithorne and searched for new scenarios under which transfer prices can have implications on profit maximization.

DEVELOPMENT OF A MODEL GUIDELINE

There were a large number of unresolved issues in formulating an acceptable model for transfer pricing. It was in 1979 that the OECD countries after long deliberation came out with the first OECD transfer pricing guidelines. The updated version of the same was brought out in 1995.

Various global surveys and studies have indicated and UNCTAD, 2004 has reported that there is now a major shift of investments from manufacturing activities to service-oriented activities. The rapid development in the communication and networking sectors has resulted in transfer of resources from the developed countries to developing countries like India. The availability of low cost labour has attracted the overseas MNCs. Today, the low cost resources combined with a fairly acceptable/competitive quality has forced most of the MNCs to relocate their business to India. The famous maxim, "Went for cost, stayed for quality" is aptly applicable to India.

These developments have resulted in reduction of cost and increase in revenue as well as profit for MNCs. Keeping in mind the best interests of the State(India), the Indian Tax Authorities, in line with the OECD guidelines as well as IRS guidelines of USA, have formulated the Transfer Pricing Regulations under the Indian Income Tax Act,1961.

TRANSFER PRICING REGULATION IN INDIA

In the year 2001, the Transfer Pricing Regulation (TPR) was introduced in India under the Income Tax Act, 1961. **Section 92(1)** stipulates that any income arising from an international transaction shall be computed having regard to the arm's length price (ALP). Even where the international transaction comprises only an outgoing, the determination thereof will be with reference to ALP only. The above provisions mean that the transfer pricing regulation is applicable only when one organization transacts with an associated enterprise, one of them being an overseas organization. In this scenario the transaction needs to be priced at arm's length price.

The three most important items that stand out in this context are :

1. International Transaction

A transaction (which term includes an arrangement, understanding, or action in concert, whether or not the same is formal or in writing and whether or not the same is intended to be enforceable by legal proceedings) would be an international transaction when it is between two or more **associated enterprises**, either or both of whom are non-residents, and is in nature of purchase, sale or lease of tangible or intangible property, or provision of services, or lending or borrowing of money, or any other transaction having a bearing on the profits, income, losses or assets of such enterprises and includes a mutual agreement or arrangement between two or more associated enterprises for the allocation or apportionment of or any contribution to, any cost or expenses incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to an enterprise by one or more of such enterprises.

2. Associated Enterprise

An enterprise would be associated enterprise of the other:

If an enterprise, which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise,

or

If an enterprise in respect of which one or more persons who participate, directly or indirectly or through one or more intermediaries in its management or control or in its capital, are the same persons, who participate, directly or indirectly or through one or more intermediaries in the management or control of the other enterprise. The same is discussed at length at a later stage in this paper while comparing with Related Parties as per the Companies Act.

3. Arm's Length Price (ALP):

"Arm's Length Price" means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, **in uncontrolled conditions**. Uncontrolled transaction means a transaction between enterprises other than associated enterprises, whether resident or not.

Basically, it is a question of comparing an international transaction with an 'uncontrolled transaction' to find out whether there has been any abuse of transfer pricing.

Computation of Arm's length price (ALP)

As per sec 92C(1), ALP in relation to an international transaction shall be determined by any of the following methods:

(a) comparable uncontrolled price method;
(b) resale price method;
(c) cost plus method;
(d) profit split method;
(e) transactional net margin method;
(f) such other method/methods as may be prescribed by CBDT

as the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as CBDT may prescribe.

Further, where more than one price is determined by the most appropriate method, ALP would be the arithmetical mean of such prices. However, the assessee has the option to adopt a price which may vary from the arithmetical mean by an amount not exceeding 5% of such arithmetical mean.

OBJECTIVES OF THIS PAPER:

This paper aims at analyzing in detail the definition and scope of 'Associated Enterprise (AE)' under Income Tax Act and 'Related Parties(RP)' as per the Accounting Standard(AS) under the Companies Act. It examines the need for additional disclosure under AS 18 relating to TPR by undertaking an empirical study of 20 listed Indian companies, reported case laws, reports of professionals and experts.

OBSERVATIONS

1. The definition of AE can be summarized as follows:

Two enterprises are deemed to be associated enterprises if at any time during the previous year :
(i) one enterprise holds, directly or indirectly, shares carrying 20% or more of the voting power in the other enterprise; or
(ii) any person or enterprise holds, directly or indirectly, shares carrying 26% or more of the voting power in each of such enterprises; or
(iii) a loan advanced by one enterprise to the other enterprise is 50% or more and not less than fifty percent of the book value of the total assets of the other enterprise; or
(iv) one enterprise guarantees 10% or more of the total borrowings of the other enterprise; or
(v) more than half of the board of directors or members of the governing board, or one or more executive directors, or executive members of the governing board of one enterprise are appointed by the other enterprise; or
(vi) more than half of the board of directors or members of the governing board, or one or more of the executive directors or members of the governing board of each of the two enterprises are appointed by the same person or persons; or
(vii) the manufacturing or processing of goods or business carried out by one enterprise is dependent on the use of know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive right; or
(viii) 90% or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise, and the prices and other conditions relating to supply are influenced by such other enterprise; or
(ix) the goods or articles manufactured or processed by one enterprise are sold to the other enterprise or persons specified by the other enterprise, and prices and other conditions relating thereto are influenced by such other enterprise; or
(x) one enterprise is a firm - A.O.P. or B.O.I., and the other enterprise holds 10% or more interest in such firm, A.O.P. or B.O.I. ; or
(xi) there exists between the two enterprises, any relationship of mutual interest as may be prescribed.

The mere fact of participation by one enterprise in the management or control or capital of the other enterprise, or the participation of one or more persons in the management or control or capital of both the enterprises shall not make them associated enterprises, unless the criteria specified in sub-section (2) of 92A are fulfilled". For example, an enterprise is holding 100% non-voting right preference share capital in the other enterprise, but does not hold any equity shares. In such a case, while it participates in the capital of the other enterprise, it does not hold shares carrying at least 26% of voting power shares, as specified in section 92A(2)(*a*). In such a case, the said criterion is not fulfilled and hence, the enterprises shall not be regarded as associated enterprises.

2. Next we come to the definition of Related Party as per Accounting Standard 18 (AS-18).

Two enterprises shall be treated as related if at any time during the reporting period they have been :
i. Directly or indirectly under common control
ii. Associates and joint ventures
iii. Individuals who enjoy control or significant influence over the reporting enterprise or their relatives
iv. Key managerial personnel and their relatives
v. Enterprises which can be controlled by or significantly influenced by persons mentioned under (iii) or (iv) above.

The standard defines the term 'control' and 'significant influence' as follows.
'Control' means:
i. more than 50% voting right
ii. authority to appoint or remove more than half of the board of directors
iii. control through substantial interest (20% or more voting power)

'Significant influence' means:
i. directly or indirectly having 20% or more voting power of the enterprise
ii. representation on the Board of directors
iii. participation in the policy making process
iv. material inter-company transactions
v. interchange of managerial personnel, or
vi. dependence on technical information.

The following are not related parties:
i. Common director, who has no say on policy matters
ii. Customer, supplier, distributor, or general agent etc
iii. Providers of finance, trade unions, Government departments and agencies, public utilities
3. Comparison
From an analysis of the above two definitions of AE and RP, it is observed that on the following points there is a divergence between AE and RP:
i. Ownership concept Vs Quantification by virtue of shareholding
ii. Composition of Board of Directors Vs Quantification of Board of Directors
iii. Additional criteria under AE:
1. Ownership in patents, trademarks, copyrights;
2. Consumption of raw materials and consumables
3. Loans and advances
4. Guarantees.

Through an empirical study of 20 listed Indian companies, it has been observed that at least 15 companies have mentioned overseas parties in the list of Related Parties as part of the disclosure under AS 18 requirement (Annexure-1). It was also very significant to note from this study that for a company like Hindustan Lever Limited, more than 90% of the RP are overseas companies. The investor has a right to know the 'possible future risk' a company has taken by entering into transactions with an AE. This fact can be further studied from the following reported cases/reports:

CASES/REPORTS
Following are the facts from some cases and reports:

1. Glaxo Smithkline (GSK) Holdings vs. IRS Commissioner (USA): The Internal Revenue Services in the USA have finally settled one of the long-drawn cases in the field of transfer pricing. The company (GSK) finally agreed to pay US$3.4 billion, to end a 17-year long tax dispute. It has also foregone the refund claim of US$1.8 billion. The impact

of this settlement was the flow out of 40% of the operating cash flow of GSK in that year.

2. EXL India vs. Indian tax authorities: The assessee company had been subjected to TP audit, and the additional tax demands for the AY 2003-04 and for AY 2004-05 were US$2.2 million and US$3.8 million respectively. The grounds for additional revenue were the disallowance of certain expenses and erroneous selection of methods for determination of ALP.

3. Transfer Pricing alert 07-007: India's TP Audits result in high markups on cost-plus services. The Indian tax authorities in the cities of Bangalore and Hyderabad have carried out the TP audits for the third year and have proposed the markups ranging from 25 percent to 40 percent. More than 80 cases have been selected for adjustments and the expected additions could be to the tune of US$220 million.

4. Transfer Pricing and the Law: The Financial Express on Monday, September 03, 2007 reported that recent TP audits and adjustments have been made to the extent of Rs. 2,300 crores for FY03 and Rs.1,200crores for FY02. This will result in huge cash outflow from the companies.

5. Morgan Stanley Advantage Services: The Company was subjected to TP audit and the tax authorities rejected the revenue declared by the company. However, the Supreme Court of India has upheld the profit declared by the company to be correct by accepting the method of determination of ALP.

It is evident from the facts of the above cases that there exist some uncertainty and an imminent risk is involved as far as determination of revenue is concerned whenever the transaction is with an AE.

SOME SUGGESTIONS:

The purpose of making AS 18 mandatory was to provide more information to the investor about the degree of uncertainty and risk to which the company is exposed by having transactions with RP. As an investor one would certainly like to assess the risk which is associated with TPR and transactions with AE and for that purpose the following disclosures will positively help:

1. Disclosure of the transactions with AE separately
2. Whether the transactions are priced at ALP
3. What method is followed for determining ALP
4. What other methods are followed by similar firms under the same category of industry. This will facilitate better inter-firm comparison.
5. The total value of transactions – both in amount and as a percentage of total revenue/expenditure as the case may be. This will help in determining the material impact of TP on the baseline profit.

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INEQUITY IN THE FLOW OF COMMERCIAL BANK CREDIT TO AGRICULTURE -- ANALYSIS OF RECENT TRENDS

*Dr. R.K. Panda

Abstract

Using recent data the study analyzes inter-state and inter-farm inequity in the flow of commercial banks' credit to agriculture. The findings of the study reveal that not only is there a wide variation in the growth of commercial banks' credit to agriculture across states but the distribution of commercial banks' credit is also skewed in favour of the more developed states. However, credit distribution across farm-sizes does reveal better equity towards marginal and small holders. In the present context of market economy and growing commercialization of agriculture in the country, the study suggests a re-orienting of the agricultural credit policy strategy to provide larger credit accommodation so as to realize higher value addition in agriculture. At the same time the reforms in the banking system must take cognizance of the credit deficit states and make suitable policy changes to meet their credit requirement. On a priority basis the commercial banks should strengthen their rural institutional structure already weakened in the post reform years for achieving better credit delivery to agriculture. They have to increase the ratio of rural branches to a number of villages for providing better access of rural households to banking services.

Introduction

Since nationalization of banks in 1969 there has been a structural shift in the institutional credit to agriculture from co-operatives to commercial banks. Available data indicate that with the commercial banks entering into the sphere of farm finance the institutional credit to agriculture has increased phenomenally in the country during 1970s and 1980s. The credit outstanding per hectare of gross cropped area which was only Rs. 158/- in 1974-75 has gone up to Rs. 1779/- at the end of June 1991. The share of commercial banks' credit in the total institutional credit outstanding to agriculture has increased from 10 per cent in 1975-76 to 55 per cent in 1990-91. However, with the beginning of the policy of liberalization and financial sector reforms in 1991-92, there has been a significant shift in the credit policy of the commercial banks. Being more focused on profitability and working to realize the prudential norms consistent with international standards, their priority for financing agriculture has been reduced significantly (Thorat, 2006). Various banking indicators such as spread of branches in rural and remote areas, rural clientele coverage and credit delivery towards agriculture have received a setback. Number of borrowal accounts in agriculture has been reduced from 27.74 million in 1992 to 19.84 million in 2001, thus showing a loss of about 29 per cent (Shetty, 2009). The share of agricultural credit to total bank credit which was 17.7 per cent in the early 1990s has steadily declined, and reached as low as 10 per cent in 2000 and 2001. As commercial banks' credit constitutes a major share in the total institutional credit deployed in agriculture, the reduction in borrowal accounts and credit deployment in the post-liberalization period has its serious implications affecting capital formation, technology use, and ultimately agricultural growth in the country. Data reveal that private investment in agriculture has shown a slow growth during 1991-2003 as compared to the period from 1974-75 to 1990-91 (Chand, 2009). Besides, there is a growing feeling that after adoption of the liberalization policy not only has the commercial banks' credit to agriculture slowed down but inequity has also increased in the spread of bank credit across regions and farm sizes. Recent studies of Sidhu and Gill (2006) and Shetty (2009) amply demonstrate high inequality persisting in institutional credit distribution across regions and farm sizes. Looking at the poor growth in agriculture consequent upon near stagnancy in agricultural investment (public and private taken together), the Government of India in the 11th Plan has laid emphasis on raising agricultural growth rate to 4 per cent per annum and has targeted doubling the institutional agricultural credit flow from Rs 86981 crore in 2003-04 to Rs 175000 crore in 2006-07. Accordingly, it has been decided to increase the network of credit activities of institutional agencies in rural areas by enlarging clientele coverage through micro-finance units, lending against warehouse receipts etc. as part of financial inclusion policy.

Objectives

Against this backdrop the present paper is an attempt (i) to study the trends in the flow of commercial bank credit to agriculture at the all-India and state levels, (ii) to analyze disparity in its flow of credit across states, and (iii) to examine the accessibility of commercial bank credit to marginal and small farmers. The paper by way of discussing the above issues makes some policy suggestions for achieving widening and deepening of commercial bank credit in the interest of developing agriculture in future.

Data & Methodology

The study is based on secondary data obtained from the publications of NABARD, Reserve Bank of India, Government of India and CMIE Report. Besides tabular analysis, quantitative techniques like Log Linear Growth Model (Y=a+bT) is used to calculate the temporal growth of commercial bank credit to agriculture at the all-India and state levels. Co-efficient of Variation is worked out to measure the disparity in agricultural credit distribution of commercial banks across states. The data analysis has ranged from 2000-01 to 2006-07 for 15 major states.

Results and Discussion

Growth in Credit Supply

Table-1 presents data on commercial bank credit disbursement (short-and long-term) to agriculture during the period from 2000-01 to 2006-07. Observation reveals that the total credit advanced by commercial banks has increased from Rs 52827 crore in 2000-01 to Rs 203297 crore in 2006-07, at an annual growth rate of 27.45 per cent. During this period while the short term credit has grown from Rs 13486 crore to Rs 76378 crore (at an annual growth rate of 33.02 percent), the long term credit has increased from Rs 39341 crore to Rs 126919 crore (at an annual growth rate of 24.86 per cent).

Growth in agricultural credit outstanding of the commercial banks among 15 major states shows wide variation between 2000-01 and 2006-07 (Table-2). Annual compound growth varies from the lowest 4.28 per cent in case of Maharashtra to 30.2 per cent in case of Karnataka. Also, we find that out of the 15 states, 6 states such as Andhra Pradesh, Bihar, Haryana, Karnataka, Orissa and Rajasthan have shown higher growth rate in credit outstanding over the all-India average. For other nine states such as Assam, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal the annual growth rate in outstanding credit remains below the all-India growth average.

Distribution of Agricultural Credit Across States

One of the important goals set before the banking system was to provide a more even distribution of bank credit. Our analysis of inter-state variation in the agricultural credit outstanding shows the percentage share of different states in the outstanding credit of commercial banks during 2000-01 and 2006-07 (Table-3). Data reveal that agricultural credit distribution of commercial banks are more unevenly distributed across states in both the years. Two states such as Maharashtra and Tamil Nadu together accounted for more than one third of the total credit outstanding in these two years. For Assam, while the share in total outstanding commercial banks' credit comes to less than one per cent, Orissa and Bihar each shared a little more than one per cent in both the years. Credit distribution among the states has not been in proportion with the gross cropped area. States accounting a higher percent of gross cropped area have got a lower percentage of credit and vice versa. This is contrary to the findings of the earlier studies conducted in this regard (Rao,1994).

A better understanding of inter-state disparities in agricultural credit has been obtained by working out the quantum of credit outstanding per hectare of gross cropped area in the selected years. Although the per hectare credit amount has increased considerably for all the fifteen states between 2000-01 and 2006-07, the pattern of distribution has not changed much. In the year 2000-01 the per hectare outstanding credit ranged from the highest Rs90646/- in case of Tamil Nadu to the lowest Rs. 7022/- in case of Bihar. For 2006-07, Tamil Nadu exhibited the highest per hectare credit outstanding with Rs 321021/- and Rajasthan the lowest with Rs24832/-. Along with Tamil Nadu, four states such as Karnataka, Kerala, Maharashtra, and West Bengal are found reaching six digit figures in per-hectare credit outstanding. In contrast, states such as Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and Rajasthan have exhibited very low credit outstanding per hectare of GCA. As noticed, the accessibility of commercial bank credit is quite high in all southern states along with Maharashtra and West Bengal while it is at a very low level for eastern and north-eastern states including Rajasthan and Uttar Pradesh. Interestingly, the agriculturally developed states such as Punjab and Haryana exhibit a lower agricultural credit outstanding compared to the all-India average. The co-efficient of variation (C.V.) in credit per hectare of GCA for the years reveals that inter-state disparity in commercial bank credit continues to remain high over the years. This is in line with the findings of earlier studies in this regard (Dadibhavi, 1988). Lower availability of institutional credit in these states puts them in a vicious circle of lower credit availability, lower investment, lower adoption of technology and lower production and forces the farmers to be increasingly dependent on money lenders for meeting their credit needs.

Commercial Bank Credit According to Farm Sizes

A comparison of the percentage distribution of credit supply and the area operated by different sizes of holdings reveal (Table-4) that the marginal and small farmers holding 39 per cent of the total operated area share 52.57 per cent of outstanding credit (short-and long-term together), whereas the medium and large farms holding 61 per cent operated area shared 47 .43 per cent of total outstanding credit of commercial banks at the end of June. Thus, the commercial bank credit seems more evenly distributed across farm-sizes. This is in contrast to the earlier studies showing uneven credit distribution of commercial banks according to size of holdings (Dadibhavi, 1988).

Conclusion and Policy Implications

The findings of the study reveal that not only is there a wide variation in the growth of commercial banks' credit to agriculture across states but also the distribution of commercial banks' credit is skewed in favour of more developed states but not agriculturally developed states as reported in earlier studies (Shetty, 2009). However, credit distribution across farm-sizes does reveal better equity. The marginal and small farms receive a little higher percentage of credit over their share in the operational area. The policy implications derived from the study seem to be quite far-reaching as the growth in commercial bank credit varies widely across the states and there is increasing concentration of their credit in a few states despite the goals set before the banking system to provide a more even distribution of credit. In the present context of market economy and growing commercialization of agriculture, there is a need for re-orienting agricultural credit policy strategy to provide larger credit accommodation so as to realize higher value addition in agriculture. The reforms in the banking system must take cognizance of the credit deficit states and make suitable policy changes to meet their credit requirement. On a priority basis the commercial banks should strengthen their rural institutional structure already weakened in the post-reform years for achieving better credit delivery to agriculture. They have to increase the ratio of rural branches to the number of villages for providing better access of rural households to banking services.

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APPENDIX - I
Table-1

Growth in Commercial Bank Credit to Agriculture in India from 2000-01 to 2006-07

(Rs in crore)

Year	Short-term	Long term	Total
2000-01	13486	39341	52827
2006-07	76378	126919	203297
CAGR(percent) (from 2000-01 to 2006-07)	33.02	24.86	27.45

APPENDIX - II
Table-2

Growth in Commercial Bank Credit Outstanding to agriculture at the all-India level and in different states during 2000-01 and 2006-07

(Rs. in Crore)

States	2000-01	2006-07	CAGR (between 2000-01 and 2006-07)
Andhra Pradesh	35348.8	128746.7	24.14
Assam	3759.8	13435.8	16.43
Bihar	5547.2	27519.1	30.10
Gujarat	29483.0	106031.3	22.22
Haryana	10747.4	41541.3	25.89
Karnataka	33856.0	170833.5	30.21
Kerala	18697.1	61066.6	22.22
Madhya Pradesh	15264.2	42364.8	20.13
Maharashtra	144064.2	501082.1	4.28
Orissa	6262.3	30122.9	29.14
Punjab	18718.8	55279.6	18.36
Rajasthan	13662.1	53885.9	24.76
Tamil Nadu	57106.8	192612.6	22.12
Uttar Pradesh	27192.6	91538.3	21.82
West Bengal	29275.6	103334.7	21.92
All-India	538433.8	1947099.6	23.63

APPENDIX - III

Table-3

Commercial Banks' Outstanding Agricultural Credit Distribution Among States

States	2000-01 Share in GCA (%)	2000-01 Share in Credit Outs. (%)	Credit /. GCA (Rs.)	2006-07 Share in GCA (%)	2006-07 Share in Credit Outs. (%)	Credit/. GCA (Rs.)
Andhra Pradesh	7.24	6.56	26184	6.93	6.61	99036
Assam	2.17	0.69	9170	1.93	0.69	36313
Bihar	4.22	1.03	7022	3.84	1.41	37188
Gujarat	5.71	5.47	26802	5.86	5.44	96392
Haryana	3.26	2.00	17619	3.26	2.13	65939
Karnataka	6.57	6.29	28213	6.76	8.77	131410
Kerala	1.61	3.47	62324	1.55	3.14	204921
Madhya Pradesh	9.55	2.83	8480	10.17	2.17	21614
Maharashtra	11.72	26.76	65483	10.24	25.73	254356
Orissa	4.21	1.16	7926	4.52	1.55	34624
Punjab	4.24	3.48	23695	4.19	2.84	68246
Rajasthan	10.28	2.54	7191	11.25	2.77	24832
Tamil Nadu	3.39	10.61	90646	3.13	9.89	321021
Uttar Pradesh	13.61	5.05	10877	13.02	4.70	36469
West Bengal	4.87	5.47	32391	4.94	5.31	108773
All-India	100	100	27956	100	100	101043
C.V	58.38	115.58	89.50	58.21	111.95	88.19

APPENDIX - IV
Table-4

Commercial Banks' Credit Supply (Outstanding) according to Size-Groups of Farms
(at the end of June 2005)

Farm Size (in ha.)	No. of Holdings (percent)	Area Operated (per cent)	Amount (Rs. in crore)	Per cent
Marginal	63.0	18.82	20499.2	26.12
Small	18.9	20.18	20758.56	26.45
Medium & Large	18.1	61.00	37218.4	47.43
Total	100	100	78476.16	100

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"FINANCIAL INCLUSION OR DEBT TRAP – EMPIRICAL EVIDENCES FROM MICRO FINANCE INSTITUTIONS IN ODISHA"

* *Kshiti Bhusan Das*
** *Debashreet Das*

1.0 THE DEBATE:

Recently a debate has been sparked relating to the objectives, ethics and operation of microfinance institutions. The core of the debate stems from the crucial issue of whether there are any commensurate decline in percentage of poverty and significant empowerment of deprived people with the growth of microfinance institutions (MFIs) in terms of number and volume of their business and profit.

An opinion in EPW May 7, 2010 by K. Singh may be cited here. According to him, though the microfinance was initially started by women's groups and NGOs to empower poor people at the local level, it is no longer a micro or local phenomenon. Globally, the microfinance industry controls assets worth more than $ 50 billion. In India, MFIs are increasingly dominated by corporate structures with the large scale funding by commercial banks and private equity firms. To private equity funds, micro finance business in India offers new awareness of profit making since interest rates range from 30% to 60% and repayment rates are over 95%, far above those in commercial lending.

Corollary to the situation above, the New Indian Express (Bhubaneswar edition) of May 29, 2010 reported that since 1998-99 there has been a mad rush of NGOs to the KBK districts of Odisha doing microfinance operation but there has been no visible development. On an average, there are more than 50 NGOs working in these districts. The NGOs get funds from various agencies for undertaking livelihood and other projects, but migration, starvation and malnutrition, illiteracy, lack of awareness of health care continue to raise questions on their role. The report calls for a thorough scanning of NGO funding and the pattern of use of the funds.

The fact also remains that over these years in many cases MFIshave successfully transformed the personal lives of many deprived people and also have redefined the social and economic contours of many villages. But unfortunately, the sudden corporatization of MFIs has raised questions about their objectives and their mode of operation.

1.1. Objective- Since the microfinance services from the days of their inception have been acknowledged as a tool of poverty alleviation, its impact should be evaluated from the standpoint of poverty reduction, women empowerment, creation of self-employment opportunities etc. On the basis of this premise, this paper makes an attempt to focus on the pros and cons of this transformation, examine the claims about poverty reduction, and suggest policy measures to correct the aberrations, if any.

THE MYTH: POVERTY Vs MFIS:

In order to verify the authenticity of the myth, the data relating to poverty and status of microfinance institutions have to be analysed. As regards poverty, Table -1 below presents wide inter-state disparity in population at the all-India monthly percapita consumption expenditure (MPCE) classes. The Average MPCE[1], head count ratio (HCR)[2] using state-prescribed poverty line, Lorenz Ratio using state level percentile class (LR-S)[3] and the relative standard errors (RSES) of average MPCE have been used in this analysis as parameters to judge the standard of living of the people.

TABLE 1 : POPULATION SHARE OF POOREST AND RICHEST STATES IN THE ALL-INDIA PERCENTILE CLASS

	RURAL	Population in the top
STATES	POPULATION IN THE BOTTOM 10 PERCENTILE CLASSES (i.e, MPCE ≤Rs 270)	10 percentile classes (i.e MPCE ≥Rs. 890)
ODISHA CHHATISGARH KERALA PUNJAB	31-1% (926) 24.1 (325) 2.3% (50) 0.5% (9)	3.7% (265) 3.3% (182) 37.5% (1598) 31.95 (1005)
STATES	URBAN (MPCE Rs 395)	URBAN (MPCE Rs 1880)
BIHAR ODISHA PUNJAB HIMACHAL-P	28.2% (436) 24.6 % (344) 1.3 % (45) 1.75 (6)	3.4 % (48) 3.2% (58) 13.6 % (280) 19.1% (99)

The figures in the brackets gives the number of sample households falling in the respective percentile classes.

(Source – S. Choudhary, N. Gupta - "Levels of living and Poverty Patterns" EPW March 6, 2010).

An analysis of Table 1 presents the extreme end percentile classes in rural India as well as the bottom 10 percentile class of the country (with MPCE of Rs 270/- or less). It reveals that the share of population is the highest for Odisha (more than 31%) whereas in case of Punjab only 0.5% households are in this bracket. Almost the same situation is observed in the urban areas. Bihar and Odisha are the two most impoverished states with more than 25% of their population found in the bottom 10 percentile class of the country (i.e. MPCE less than Rs. 395).

TABLE 2 : COMPARISON OF AVERAGE MPCE, HCR AND LR-S (2004-05)
ALL-INDIA Vs ODISHA

	% of All India Population	Rural Average MPCE (Rs)	RSE of Average MPCE	% of Poor	Lorenz Ratio-S
		RURAL			
Odisha	4.4%	399	1.68	46.9	0.2816
All-India	100.0	559	0.54	28.3	----
		URBAN			
Odisha	2.0	757	5.6	44.7	0.3489
All - India	100	1,052	1.14	25.6	-------

The above table makes a comparison between Odisha's and the country's average MPCE, HCR and Lorenz Ratio, which together reflect the level of living.

The average MPCE was found to be the lowest in Odisha (Rs 399/-). The State has the highest percentage of poor people both in urban and rural areas, i.e. people below the poverty line.

The finding of the above table was reflected in the Budget Speech of the Hon'ble Union Finance Minister (Para 29 of the Budget Speech, 2009-10), on the basis of which the Government constituted a taskforce to look into the issues of poverty, private moneylenders and indebtedness. This was a step taken after an investigation into the suicidal deaths of small and marginal farmers across the country.

Again in the Budget speech of 2010-11, the Hon'ble Union Finance Minister expressed his concern about harnessing economic growth to make development more inclusive. He also expressed anguish over the weakness in government systems, structures and institutions as he realized that these are the real bottlenecks in the delivery mechanism.

Now, coming back to the core issue of the debate, Mohammad (2009) reflects the contradicting myths about the Grameen Bank (GB) model. She is of the opinion that this model created a good opportunity for expanding the market for financial capital, thereby ensuring GB's spectacular success. But it failed as a tool of poverty alleviation and empowerment of women. She has made an analytical study to understand the nature and extent of the corporate success of Grameen Bank and other MFIs engaged in Micro-credit activities, and has simultaneously examined their claim about poverty reduction and empowerment of women.

She arrived at the following conclusions after observing that there is increasing commercialization of micro-lending, that there is polarization of microfinance agencies, and that the coercive tactics of getting repayment gave birth to highly profitable business enterprises. She has attributed the Grameen Bank's success to creating profits by integrating the poor into the market, and not in alleviating poverty.

This inference was further strengthened with the statement of the Governor of Bangladesh Bank : "A strong informal NGO-microfinance system has emerged in the country during 1980s with the Grameen Bank and hundreds of NGO-MFIs operating profitably in rural areas, small towns, semi urban areas etc."

A summary of the findings of Mohammad (2009) provides an insight into the upsurge in the recent model of microfinance institutions :

i) The study reveals that even though the Grameen Bank and its affiliates claim to cater to 65% of the poor families in the country, the study puts it at 10%. (As rich individuals use poor women as proxies, it is not easy to calculate the number of poor borrowers.)

ii) The persistence of high poverty ratios in the official statistics of the country(Bangladesh) belies the claim of Mohammad Yunus that 5% of the borrowers get out of the poverty threshold every year.

This study proves the success of GB as a myth and opens a new debate and new thinking on the objectives of MFIs.

2.0. The Indian experience

In this section we will deal with the effectiveness of MFIs in the Indian context. Look at Tables 3 and 4.

Table 3 : Total and indebted farm households and their source of debt by land holding size.

Size of land	Total households	Total indebted households	LOANS FROM	
			Institutional agencies	Non institutional agencies
< 0.01	1.4	1.3	22.6	77.4
0.01<.40	32.8	30.0	43.3	56.7
0.41-1.0	31.7	29.8	52.8	47.2
1.01-2.0	18.0	18.9	57.6	42.3
Up to 2.0	83.9	79.9	51.3	49.7
2.01-4.0	10.5	12.5	65.1	35.0
4.01-10.0	4.8	6.4	68.8	31.1
10.00	0.9	1.2	67.6	32.4
All sizes	100.0	100.0	57.7	42.4

[Source – NSSO Situation Assessment Survey of Finance, 2003]

TABLE – 4 : Distribution of population and average daily per capita expenditure by poverty status (1993-94 through 2004-05)

Poverty status	**Distribution of population (in million)**	**Population percentage distribution**	**Average DPCE(Rs)**
1993-1994			
1. Extremely Poor	102.6	11.5	4
2. Poor	171.6	19.2	6
3. Marginal	168.2	18.8	8
4. Vulnerable	289.5	32.4	11
Total	**731.9**	**81.8**	**8**
1999-2000			
1. Extremely Poor	87.4	8.7	7
2. Poor	174.1	17.3	10
3. Marginal	200.2	19.9	12
4. Vulnerable	349.0	34.8	17
Total	**810.7**	**80.7**	**13**

2004-05			
1. Extremely poor	69.7	6.4	9
2. Poor	167.3	15.4	12
3. Marginal	207.1	19.0	15
4. Vulnerable	392.0	36.0	20
Total	**836.1**	**76.8**	**56**

Table 4 gives a striking profile of poor and vulnerable people in terms of their consumption expenditure. As of 2004-05, 21.8 percent of people can be regarded as poor or extremely poor. When we compare this information with estimates derived from the 55th round of 1999-2000 and 50th round of 1993-94, there has been some decline in the percentage of people belonging to these groups of poor i.e from 31% to 22%, but it is also to be noticed that 41% of people (extremely poor, poor, marginal etc) survived on an average expenditure of less than Rs 15/- per day per capita consumption in 2004-05.

The four groups of people – extremely poor, poor, marginal and vulnerable constituted 77% of the population in 2004-05. Most of them lived with an average DPCE below the global level of poverty of $ 2 per day. An absolute number, it was 836 million out of 1090 million in 2004-05 compared to 237 million out of 894 million population in 1993-94.

A summary of the above data corroborates the findings of Anu Mohammad about the claim of Grameen Bank which was found to be a myth. In India, and particularly in Odisha, despite the intervention of the government through different schemes and the active presence and operation of micro-finance institutions there is no significant decrease in the percentage of poor people.

2.1. Status of MFIs

Now let us analyse the growth of MFIs in the country and the volume of their business. In this paper only the MFIs which are financed by Banks and refinanced by NABARD have been considered since the data about the MFIs which receive finance from outside sources are not available.

TABLE 5: Progress of MFIs and MF during 2006-07 and 2008-09

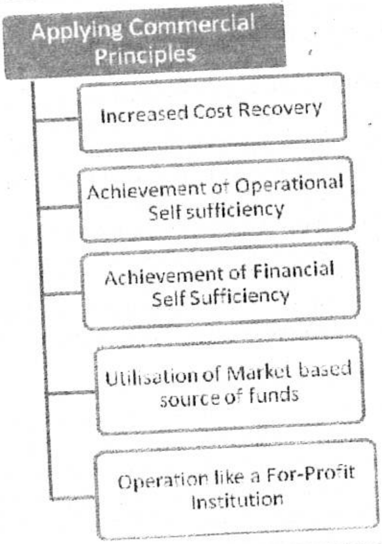
	2006-07		2008-09		Percentage of Growth (Rupees in crores)	
MFI-Bank Linkage Model	MFIs	Amt.	No. of MFIs	Amt.(Rs)	No. of MFIs	Amount
1.Bank loan disbursed to MFIs during the year	334	1151.56	581	3732.33	247 (74%)	258077 (224.11%)
2.Bank loan outstanding with MFIs on 31-3	550	1584.48	1915	5009.09		

The above table reveals that during the year 2008-09, the banks financed 581 MFIs with bank loans of Rs 3732.33 crore as against 334 with bank loans of Rs 1151-56 crore during 2006-07, thus achieving a growth rate of 74 percent (No. of MFIs) and 224.11% (bank loan to MFIs) respectively. It is well known that following the RBI guidelines issued in February 2000 to all scheduled commercial banks including RRBs, MFIs avail bulk loans from banks for onward lending to SHGs and other small borrowers. As regards outstanding bank loans to MFIs, it stood as Rs 5009.09 crores to 1915 MFIs as on 31st March 2009 against Rs 1584.48 crore to 550 MFIs as on 31.3.2007.

TABLE 6 : Bank loan provided to MFIs (amount in crores) by various FIs

		Amount of loan Disbursed to MFIs		Loan outstanding to NGO/MFIs		
Agency	Years	No. of MFIs	Amt.	No. of MFIs	Amt.	Percentage of Recovery
Com. Banks (PSB +Pvt.)	2007-08	497	1698.60	1072	2745.24	82-100
	2008-09	522	3718.93	1762	4977.89	70-100
	% Growth	5.0	88.9	64.4	81.3	
RRBs	2007-08	08	1.51	24	3.58	90-100
	2008-09	59	13.40	153	31.20	87-100
	% Growth	637.5	787.4	537.5	771.5	
Co. Op. Banks	2007-08	13	0.04	13	0.02	100
	2008-09	0	0	0	0	0
	% Growth	NA	NA	NA	NA	NA
TOTAL	2007-08	518	1970.15	1109	2748.84	
	2008-09	581	3732.33	1915	5009.09	
	% Growth	12.2	89.4	72.7	82.2	

From the above data (Table 6), it can be inferred that during a span of three years there was a significant growth of MFIs and their business in this country. The assumption is that the MFIs' presence and government programmes together have helped in the reduction of poverty. But the result shows a different picture. This is only a part of the microfinance operation that is limited to Bank-MFI linkage. The MFIs in their quest to earn more profit try to obtain funds from various sources like donors, government, private equity, venture capitalists etc. All this leads to the allegation of profiteering from the poor.



3.0. Path towards commercialization:

These allegations have their root in the commercialisation of micro-finance operations.

The gradual movement towards commercial microfinance suddenly made an exponential growth because of the spread of information about the extent of microfinance markets and profitability of MFIs with the shift in the structure of the MFIs, their objectives and approaches. It can be ascertained from the fact that the Micro Credit Summit held in 2006 (2nd Summit) was attended by many big corporates, companies and financial institutions. The summit was sponsored by Monsanto and Citigroup. The summit campaign report estimated that there are more than 3000 MFIs serving 100 million poor people in developing countries. The total cash turnover of these institutions globally was estimated at $2.5 billion (Harford 2008). And in the same year, Citi Bank opened "Citi Microfinance" initially based in London, New York, India and Columbia.

In 2006 Barclays launched Gramian micro finance. The International Financial Corporation (a part of World Bank) channeled $45 million in credit linked notes issued by Stanchart Bank to facilitate microfinance lendings. The next year J.P. Morgan launched a microfinance unit as part of its emerging market strategies.(Harrford 2008).

A study on commercialization of micro-credit and its evolution reveals that Sequoio Capital, the Venture Capital Fund which funded Google, Apple & Cisco has put $11 million in SKS Microfinance of India. Presently, the same firm, one of the largest MFIs in the country with substantial investments by private equity firms and hedge funds, is planning to raise Rs 11,000 million through an IPO. Sourcing news reports, fresh allegations have also been made against these MFIs about their commitments and their motives. A news item was about the sale of a part of the stake of SKS microfinance to a hedge fund and through this deal making a 12-fold profit before the issue of IPO. (Allegation was very specific-"the promoters of such MFIs have become millionaires while their borrowers remain desperately poor".)

Compartamos of Brazil has become their role model. Compartamos was founded in 1990 as a non-profit organization. After a decade it converted itself into a profit making company. The initial investment was $6 million in 1998 made by Accion International. (ACCION Intl. was partly funded by USAID and International Finance Corporation, which is World Bank's private sector lending arm.) Ironically, between 1998 and 2007, this initial investment of $6 million became $ 1.5 billion. Milford Bateman (2008) raises questions regarding the justifiability of this profit.

If we study the Indian scenario, it is no different. The foreign commercial banks since 2001 have discovered massive opportunities in micro-finance. The Microfinance sector became a safe haven for investors. From almost zero in 2001, the commercial banks now channel 22% of their total loan portfolio through highly, profitable microfinance accounting to almost 12% of GDP.

ABN Amro began microfinance operation in September 2003 and now has 24 Indian partners and outstanding micro loans of Rs. 10.3 crore as on 31st March 2006. There are many such examples where many NGO-MFIs transformed into profiteering MFIs through the commercial route. One more example is Banco Compartamos of Mexico. This MFI issued an IPO in 2007 and through this route the private investors became millionaires. For divesting 30 percent ownership the MFI received $ 450 million. Why sdid the MFI go for such high market capitalization? It is because Compatamos was earning a super profit @ 55% on equity. The source of such big profit was the high interest rate @ 85% a year charged to the borrowers. Similarly, in 2009, CARE (US Aid Agency) generated $ 74 million when it sold 77% of its stake in a Peruvian MFI-Financial Edyfican. (K. Singh). This new paradigm which has come in the form of a corporate entity, has brought in new culture, new methodologies etc. According to Veenit Rai (ET 26.10.07) this has given a rare opportunity to entrepreneurs to bring together social work and capital led business professionalism.

In 2007 Spandan (an MFI) was valued at Rs 125 crore. To-day, as the Tarmasck deal shows, it is valued at Rs 200 crore. When it tried to raise funds, the company received as many as 17 letters of interest from the likes of Warburg Pincus, Citibank, Bain Capital etc.

Now moving in this direction, SKS microfinance which has adhered to commercial microfinance since long and has significant venture capital and private equity in its composition is planning to raise Rs 11,000 million. It is also planning to raise $250 million through IPO by shedding a part of the ownership to a hedge fund, which speculates to generate a 12-fold profit(even before the issue of IPO). It is even acknowledged in the Annual Report of SKS microfinance that it could mobilize the largest ever private equity capital amounting to Rs 366 crore (US $ 75 million) led by Sandstone capital in the midst of the global financial crisis in the later part of 2008. During this hostile period of fund raising, it could raise a debt of Rs 3762 crore (US $777 million). Even the loan provided by the Public Sector commercial banks constitute 27% of its loan capital. It is the first MFI in India to issue non-convertible debentures, commercial papers etc. and use pooled securitization. But how did it become so successful? An analysis of its financial performance, operational performance and profitability will help us to arrive at a logical conclusion.

TABLE 7 : OPERATIONAL PERFORMANCE OF SKS MICROFINANCE (Bargraph in Appendix I)

Particulars	March 2006	March 2007	March 2008	March 2009	Growth (2006-2009)
Total No. of Branches	80	275	771	1351	1271 (1588.75%)
Activity in Districts	19	102	235	336	317 (1668.42%)
No. of staff	574	2389	6425	12814	12,240 (2132.40%)
No. of members (million)	0.20	0.60	1.87	3.95	3.75 (1875%)
Amount Disbursed(Million)	1525	4454	16,789	43,988	42,463 (2784.46%)
Portfolio Outstanding(Million)	921	2756	10,506	24565	23,664 (2567.20%)

TABLE 8 : Financial operations (Bargraphs in Appendix II)

Particulars	March 2006	March 2007	March 2008	March 2009	Growth % (2006-2009)
Incremental debt	88	277	1063	3762	3674 (4175%)
Total Revenue	10	46	170	554	544 (5440%)
PAT(Profit After Tax)	0.44	3.67	16.64	80.22	79.78 (18,131.82%)
Total Assets	98	332	1083	3033	2935 (2994.90%)
Return on Assets	0.48%	1.00%	2.51%	4.395	3.91%
Return on Equity	3.08%	18.01%	16.3%	19.2%	16.115%

TABLE 9 : Financial Performance (Bargraphs in Appendix III)

2008-09			2007-08		
Particulars	Rs. Income	% to Revenue	Rs in crores	% to Rent	Increase
Income from operations	506	91%	162	96%	211%
Gross revenue	554	100%	170	100%	226%
Operating and other expenses	76	14%	28	17%	171%
Profit before tax	124	22%	29	17%	329%
Profit after tax	80	14%	17	10%	382%

An analysis of the above three tables (7,8,9) reveals that the MFI(SKS Microfinance) has had a spectacular growth within a span of three years. The percentage of growth on each parameter is astounding as it is displayed in hundreds and thousands per cent. Take for instance, the income from operations. The MFI has increased its income from operations(interest charged to borrowers) by 212% to Rs 506 crore in 2008-09 which was declared a recession hit year.

Similarly the revenue increase was the result of the increase in amount disbursed - from Rs 1678.90 crore in 2007-08 to Rs 4398.83 crore in 2008-09. Alongside this, the number of branches has also substantially increased, from 771 to 1354, and the number of borrowers increased from 18.79 lakhs to 39.5 lakhs during this one-year period.

During this year the profit before tax and after tax has also increased significantly by 329% and 382% respectively.

So, on the basis of the above observation it can be concluded that **banking with the poor has become more profitable**. The unprecedented growth of "money for money" activities helped many of the rich to become richer (Muhammad 2009).

In this process of commercialization, the mode of operation has also changed, which can be compared with the mode of operation adopted by indigenous money lenders or informal financiers. A case published in the New Indian Express seems to be typical. The commonality in the practice is cited here.

A woman who takes a Rs 10,000 loan from an MFI has to pay Rs 225 every week. If she is unable to make this payment or has another emergency in the house, she will take a new loan. The existing lender will not give a fresh loan till the old one is at least 35 weeks old. So she will borrow from another MFI. That's another Rs 225 every week. Weighed down she will take a third loan in a matter of months. Ultimately she has to pay Rs 675/- every week; and so a fourth loan and as a last resort she would sell cattle, land, jewellery or commit suicide. The circumstances make the poor a multiple loanee.

On the whole, the MFIs' growth is creating an unnerving situation. Even among those in the industry there are fears of mass delinquency triggered by poor rains/heavy rains or organised resistance.

4.0. How do we explain this shift?

4.1. Squeezing of small credit: A detailed analysis of data by Shetty (2008) disclosed that the bulk of credit during a four-year period (Rs 90,000 crore to Agriculture in 2004 - Rs 2,37,000 crore in 2008) have been in the form of

i) Indirect credit for input suppliers etc.
ii) Credit extended by urban and metropolitan branches, and
iii) Large size loans given with credit limits of Rs 1 crore and above.

Again, out of the total credit almost 50% credit was routed through indirect channels like private firms, commission agents, NBFC etc. over a period from 1980 to 2006. Another study reveals that the direct credit to the farmers came down from 83% in 1972 to 54% in 2006. It is an irony that in 2005 more than 84% of indirect credit went to big accounts (> Rs 1 crore) while small loans (<Rs 25,000) accounted for a mere 0.9% (Chavan 2007).

Squeezing of direct credit (after adjusting inflation) gradually aggravated, and during the period 1995-99 it created a crisis which resulted in suicides by farmers across the country. Nagaraj (2007) puts the number of suicide deaths at 1,50,000 between 1997-2005.

A look at the NCEUS TaskForce report(2007; chapter-3), clarifies that the percentage share in bank credit to small and microenterprises fell from 4.2% in 2003-04 to 1,8% in 2007, while that for the micro group dropped from 2.2% in 2002-03 to 1.2% in 2006-07. A recent study by EPWRF (2009) disclosed that the target set by RBI for bank loans to agriculture, SSI and other weaker sections fell short by Rs 70,000 crore.

4.2. Withdrawal of public sector banks from rural sector banks:

A study by Chakraverty (2004) based on secondary data found that over a period (after 1991) Regional Rural Banks had shifted from outreach to financial profitability. To overcome the heavy NPAs (till mid 1990s), the RRBs started investing more in government bonds on the recommendation of the Narasimham committee. It was also found that locational distribution of RRBs had undergone a shift from rural to semi-urban and urban areas.

NCEUS (2009) revealed that there was a sharp decline in the number of Public Sector Bank branches from 35,360 in 1993 to 30, 561 in 2007 in rural areas. It is left to Micro-Finance Institutions by the Public Sector Banks to cater to the needs of the ruralites. Ultimately the NGO-MFIs took up this small-scale or micro-credit operations through SHG route. The logic extended by these banks was that the SHGs with group collateral can reduce the NPAs of the banks.

For that matter, Grameen Bank of Bangladesh became the role model. The RBI and the NABARD encouraged the SHG-Bank linkage micro-finance model, and co-operatives were used to refinance the NGO-MFIs. Since then the objective of microfinance has been finetuned for financial inclusion, and social and economic empowerment for balancing equity and growth.

4.3. Matching the Unmet demand:

The following studies describe the demand and supply of microfinance and the penetration level. A planning commission of India estimate (11th plan document for micro finance) projects a requirement of Rs 42,000 crore per annum (Rs 25,000 consumption credit + Rs 17,000 production credit) whereas the total credit outstanding is merely Rs 5000 crore.

Both the World Bank and NCAER(2003) studied the penetration level of rural finance in Andhra Pradesh and Uttar Pradesh, using 6000 households as sample size and found that around 87% of the marginal farmers/landless labourers did not have access to credit from the formal banking sector.

The Development Report "Attacking Poverty" published by the World Bank 2000-01 reveals that around 80% of the World's 4.5 billion people living in low and lower middle income economies did not have access to formal sector financial services.

From the above studies, it can be concluded that there is still a large chunk of people who remain unbanked in this country despite 30,000 rural and semi-urban branches of Commercial Banks (CBs), over 14,000 branches of RRBs, around 12,000 branches of District Co-operative Banks (DCCBs), and 1,12,000 primary agricultural Credit Co-operative Societies (PACs) at the village level. So a very pertinent and crucial question was mooted while formulating policies of the country : How can micro-credit be available to the deprived? Financial inclusion became a focal point of our plans and policies.

Justin Lin (2009), the World Bank's Chief Economist, called for the creation of a large number of small local banks to meet the credit requirements of small borrowers/producers. This shortfall in the supply of microfinance persists even after two decades of its emergence. This gap of financial exclusion (demand) created an opportunity for the micro-finance operators.

In 1998, there was a tripartite meeting of the World Bank, USAID and UNCTAD on microfinance in Lyon, France, where UNCTAD remarked: "The micro-credit phenomenon has revealed the existence of a huge potential market, profitable yet largely untapped; an estimated 500 million micro-entrepreneurs and their families, until now largely excluded from a financial system .... These 500 million micro-entrepreneurs represent a potential credit market of $ 100 billion and an even larger market for savings and insurance .... Institutions such as Bancosol in Bolivia and K-Rep in Kenya boast better profitability rates than some of the world's biggest and best banks. A movement initiated about 20 years ago ...... micro finance becoming an industry making its way into the mainstream financial system." (Choudhury : 2007).

It is evident from the above statement that microfinance has ultimately become a profitable banking business – which has proved that the poor are bankable, and profitable business can be run with the poor as its customers. This objective has led to a path towards commercialization – i.e Increased cost recovery + achievement of operational self sufficiency + achievement of financial self sufficiency + Utilising market based source of funds = operate as a For-Profit Institution.

5.0. REASONS OF DELINQUENCY:

(a) The most important reason for this aberration is the demand and supply of finance to the micro finance sector that encouraged many undeserving and unscrupulous players to come to this sector.

(b) There is a sudden increase in the source of supply of finance. As a result, the quantum of money that flow into the village is higher than the village economy's absorption capacity.

(c) In order to increase the volume of business and the number of clientele, the field staff often go for aggressive pushing of loans, sometimes poaching the member-borrowers of other MFIs without ascertaining their repayment capacity.

(d) It also remains a fact that the public sector banks offer cheaper credit but the quantity is too inadequate to meet household needs. It was found during a research survey that the SHGs get loan in the ratio of 1:4 (group savings: loan amount) but banks give loan in the ratio of 1:1. The members who are in need of more money obviously move to other MFIs to fulfill their financial needs.

As a consequence, the members become multiple loanees and fail to pay back their loan amount. The other reasons of default were analysed, and it was found that :

(i) The MFIs' insistence on weekly repayments was an obstacle. It is not easy in rural areas to pay weekly as the flow of money is dependent on the agricultural cycle.

(ii) Secondly, the size of loan gradually becomes big and makes it difficult for the borrower to repay.

(iii) It was also found that the MFIs offer irresistible concurrent loans such as emergency loan, marriage loan, education loan etc. without investigating the variety of their needs.

(iv) A study on the operation area of MFI has revealed that the MFIs target the area which is better banked and serve the same set of targeted people.

(v) Ultimately, charging very high interest rates to low income borrowers is a primary reason of default, whatever the reasons of high interest rate may be.

6.0. Suggestions Towards Solution :

There should be a two-pronged approach to solve the problem : (i) by introducing a regulatory framework and regulator in place, and (ii) by choosing the borrower according to their repaying capacity (livelihood activity).

As the members of MFI-NGOs are increasing in number, it is desirable to bring in a regulatory framework and a regulator to rein in the unscrupulous institutions in this sector. It will also foster orderly development of microfinance industry, ensure stability of the system and eliminate unethical practices. Achieving a conducive policy, a legal framework is generally believed to be a better way to promote financial deepening. As regards regulation, it is desirable to have prudential and non-prudential regulation.

Prudential regulation ensures the strength and success of the financial institutions through accurate assessment of risk such as balance sheet risk, interest rate risk, market rate risk etc. (H. Vangranering)

Prudential regulation ensures assessment through financial and operational performance analysis capturing dimensions like sustainability, productivity, efficiency, portfolio quality etc. This regulation is meant for self-regulation of the institutions.

But non-prudential regulation that is concerned with the conduct of business of MFIs should be made mandatory. Protection of the borrowers can be ensured through a standardized reporting system, accounting specifications, tax and fiscal regulation, monitoring etc. The regulation should ensure that these MFIs follow the prescribed norms and standards.

The second alternative relates to the categorization of the borrowers. In this case the borrowers may be divided into three groups i.e. Poor, Extremely Poor and Economically Active Poor. People living in extreme poverty live below the minimum subsistence level (including those whose purchasing power does not permit the minimum caloric intake required to overcome malnutrition or people who live in regions which are severely deprived of resources etc). There are the economically active poor who have some form of employment and who are not destitute, but have marketable skills and control over earning assets.

Experience over the years has proved that when loans are provided to the very poor, the borrowers may not be able to use the loans effectively because they lack the opportunities for profitable self-employment. So there is a risk involved in using the credit. Food deficit borrowers without opportunities to use credit or to market their output may have no choice but to eat their loans.

So the poorest of the poor should not be the responsibility of MFI-NGOs, as far as commercial micro-credit is concerned. They should rather be served by the government (schematic programmes), donor subsidies, and grants. The subsidized or grant based micro loans should be rationed. Commercial microfinance should target the poor who are economically active or should be used for scaling up of existing micro-enterprises.

Notes

1. Average MPCE is the aggregate consumer expenditure of the relevant population divided by the corresponding population.

2. HCR is the ratio of population below poverty line and the total population of a particular region.

3. The Lorenz Ratio has been obtained from the cumulated expenditure share of each MPCE class in the aggregate consumer expenditure against the cumulated population shares of the MPCE classes.

4. The Micro Financial Sector (Development and Regulation) Bill, 2007 was tabled in Parliament but it was immediately referred to the Parliamentary Committee on Finance for review as it was opposed by many MFI-NGOs showing the reason that it will strangulate the growth of microfinance industry.

5. If the financial institutions provide credit to severely food-deficit borrowers who live in remote mountains or drought affected regions or forest areas without any linkage, lacking basic infrastructure, the debtors will have no choice to use the credit productively and hence cannot repay the loan.

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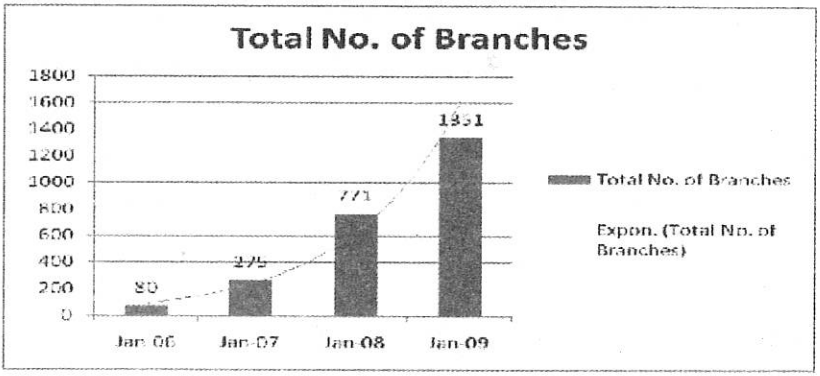
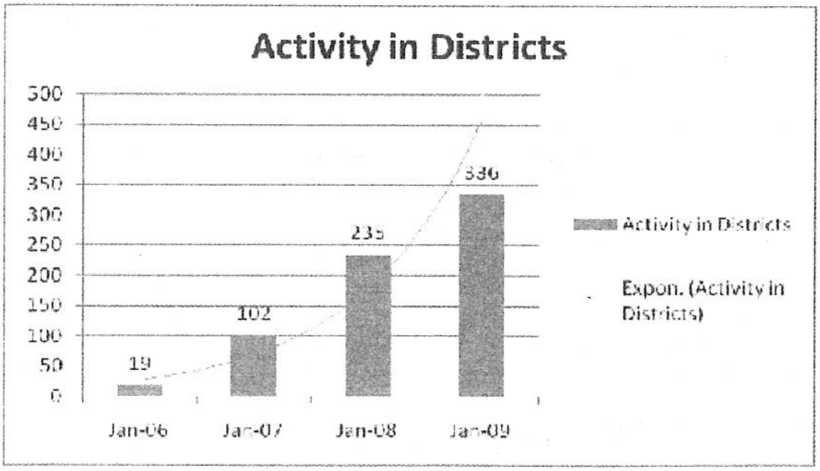
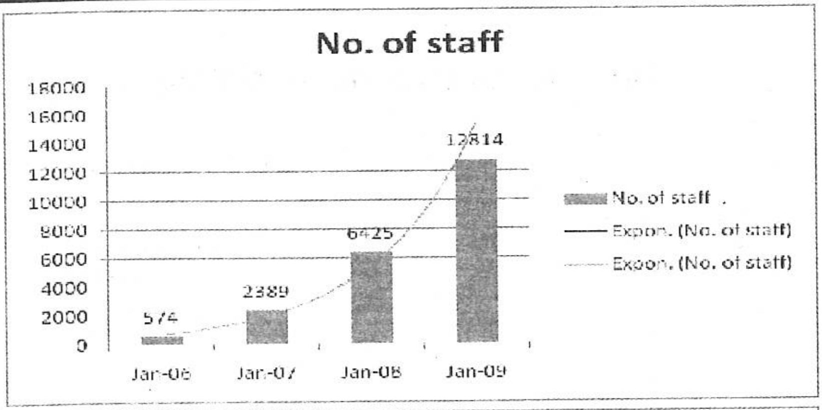
Appendix I

TABLE NO 7



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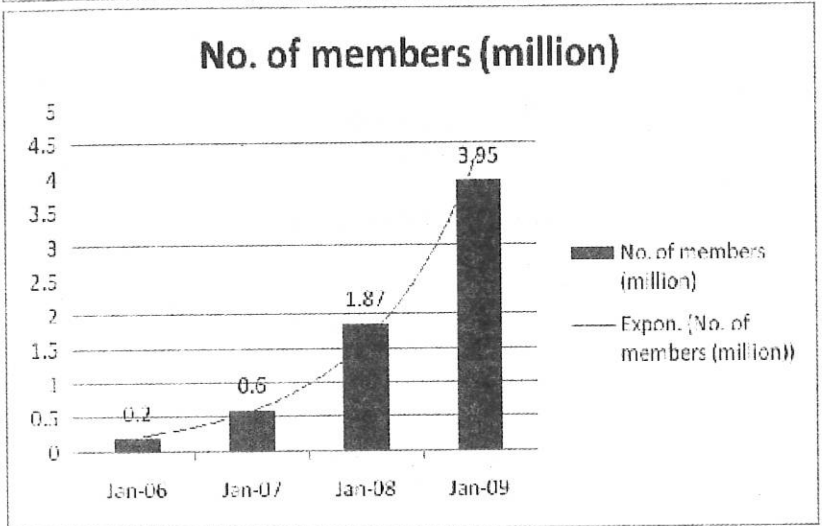
16000
14000
12000
10000
8000
6000
4000
2000
0
574
2389
6425
12814
Jan-06
Jan-07
Jan-08
Jan-09
No. of staff
Expon. (No. of staff)
Expon. (No. of staff)


No. of members (million)
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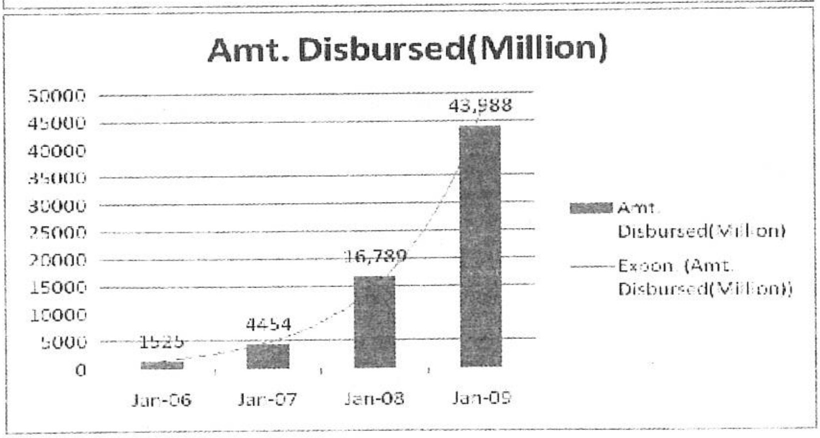
4.5
4
3.5
3
2.5
2
1.5
1
0.5
0
0.2
0.6
1.87
3.95
Jan-06
Jan-07
Jan-08
Jan-09
No. of members (million)
Expon. (No. of members (million))


Amt. Disbursed(Million)
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40000
35000
30000
25000
20000
15000
10000
5000
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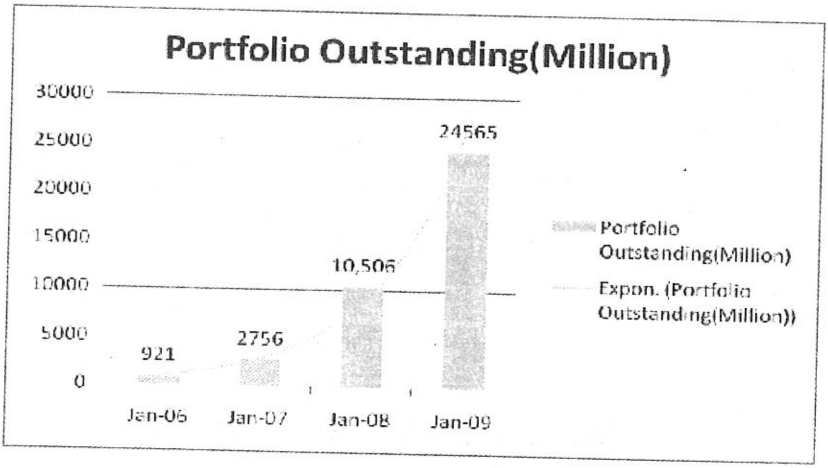
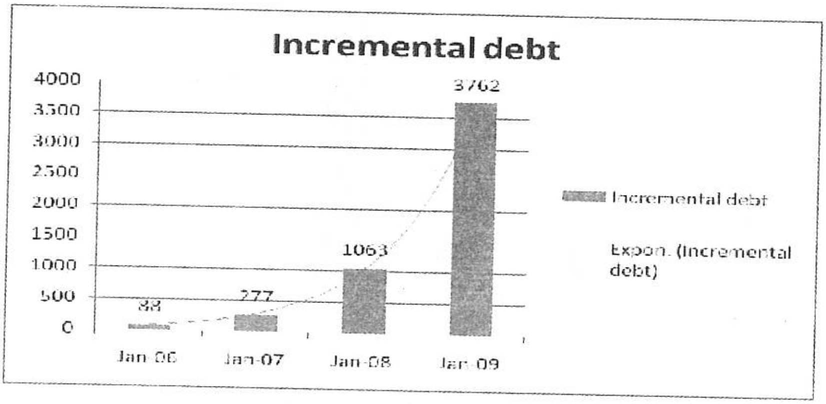
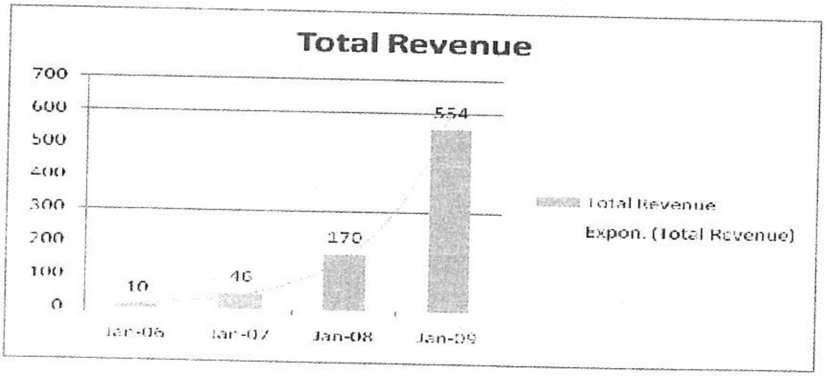
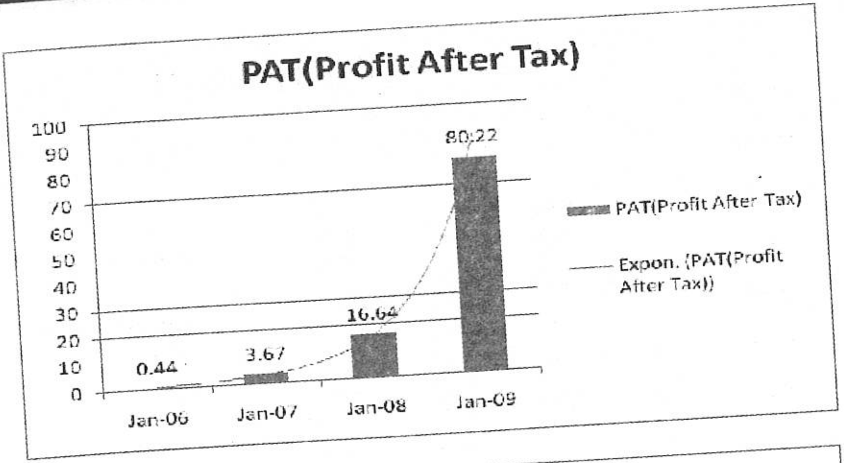
Jan-06
Jan-07
Jan-08
Jan-09
Amt. Disbursed(Million)
Expon. (Amt. Disbursed(Million))



Appendix II
TABLE NO 8



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70
60
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40
30
20
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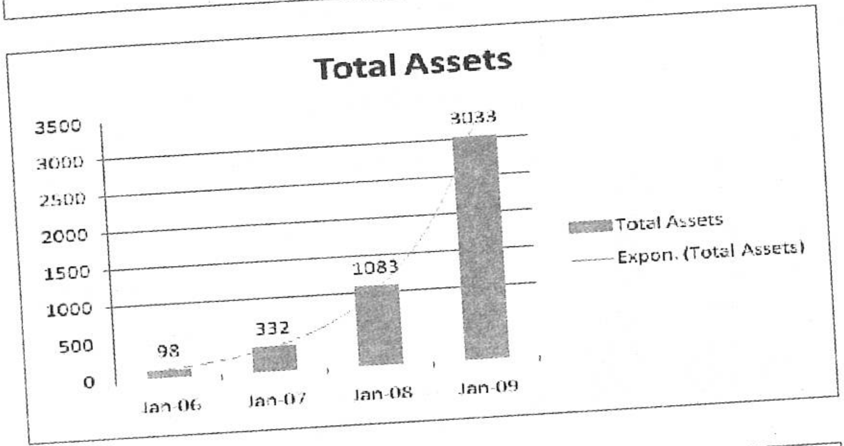
0.44
Jan-06
Jan-07
Jan-08
Jan-09
PAT(Profit After Tax)
Expon. (PAT(Profit After Tax))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Jan-06
Jan-07
Jan-08
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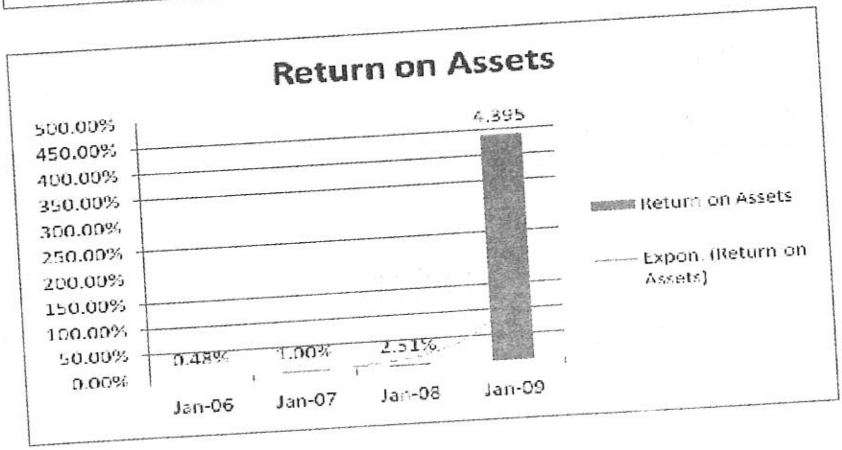
Total Assets
Expon. (Total Assets)


Return on Assets
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400.00%
350.00%
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100.00%
50.00%
0.00%
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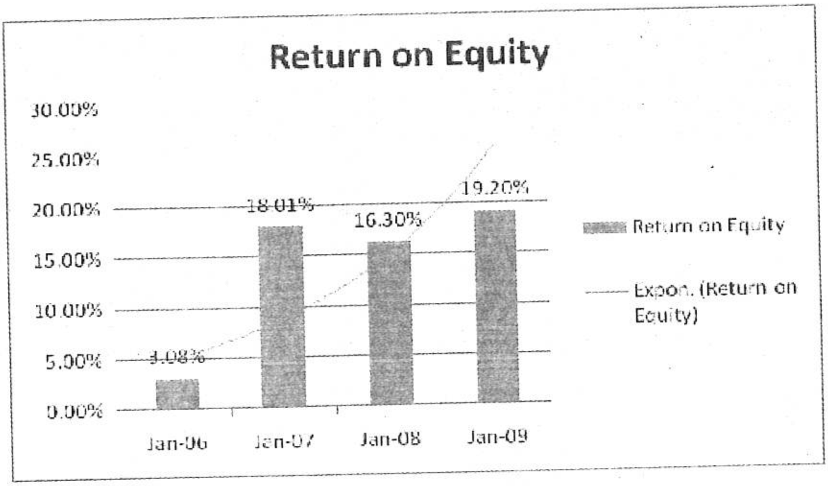
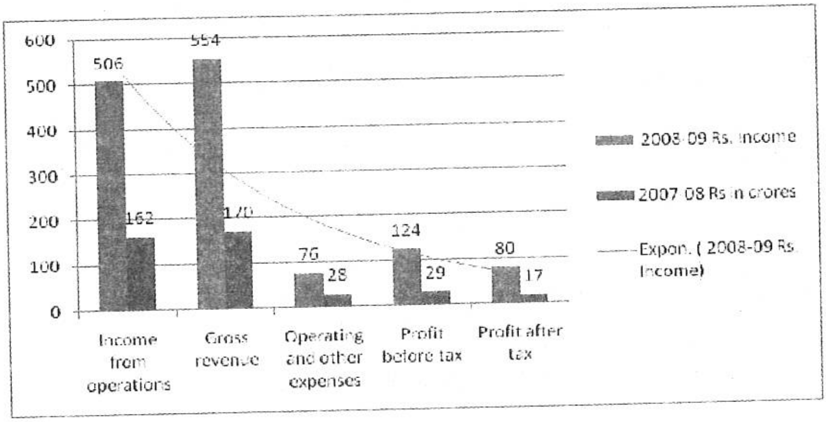
1.00%
2.51%
Jan-06
Jan-07
Jan-08
Jan-09
Return on Assets
Expon. (Return on Assets)



Appendix III
TABLE NO 9



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THE 7P'S OF SERVICES MARKETING AND MUTUAL FUNDS : AN ANALYTICAL APPROACH TO THE INDIAN CAPITAL MARKET

* K. K. Patra
**Shankar Prasad Tripathy

ABSTRACT

This study investigates the manner in which service marketing has led to the extension of the 4Ps to the 7Ps and how the investors perceive the mutual fund investments in the Indian Capital Market. The marketing mix management paradigm with its 4Ps is an approach which makes the seller active and the buyer and consumer passive. The 4Ps proved to be restricted to some extent. A need for a new marketing mix for a service oriented firm was identified. More emphasis was given to what people wanted, needed, and how they were treated. An organization emphasizes on meeting the needs of its targeted market. The marketing mix of 7Ps helps an investment company to diverge its product from goods-oriented to service oriented. For the last two years Indian capital market and the interest rate structure have been quite volatile and many investors have not been satisfied with their returns. There is a colossal amount of misunderstanding about the concept of the mutual fund industry in India. It is personified as an instant route to riches, and fund managers are accused of mismanagement when the investors are not made millionaires overnight. During the early 90's the mutual fund sector progressed remarkably and over the years with SEBI and AMFI performing the role of a strong and efficient regulator, the Indian market has been defined as a pluralist, liberal and democratic one with vast extent of open markets.

Key words: Mutual funds, management, paradigm, investments, capital market, diverge.

Introduction:

"In the world of investments, there are truths, there are lies, there are statistics, there are facts…and then there is The Honest Truth"

-Ajit Dayal

Keeping pace with time, the marketing of financial services has become technology´savvy. Today's financial service institutions have shifted from traditional face-to-face selling to technology-oriented marketing practices such as marketing through phone, mail, and computer-based technology. Consumers now prefer other means of interaction to face-to-face interaction. A significant variation was found in consumer preferences across different financial products and services and the profile of consumers is developed based on their preferences. Implications are drawn for developing customer-oriented marketing strategies, acknowledging customers' differences in their preferences for human interaction and self-service technology. Services are different from products and have a number of distinguishing characteristics that are critical to marketing overseas. Services can be anything that can be bought or sold. There are various challenges for services. They are:

· Defining and improving quality
· Designing and testing new services
· Communicating and maintaining a consistent image
· Accommodating fluctuating demand
· Ensuring the delivery of consistent quality
· Motivating and sustaining employee commitment
· Coordinating marketing, operations and human resource efforts
· Setting prices
· Finding a balance between standardization and personalization

Global Perspectives of Mutual Funds:

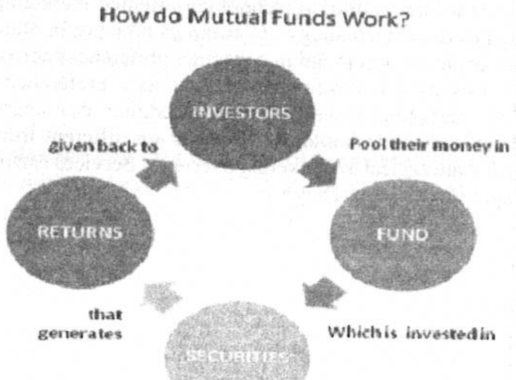
"There is no such thing as service industries. There are only industries whose service components are greater or less than those of other industries. Everybody is in service."

-Theodore Levitt

Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. A mutual fund pools money from investors and builds a portfolio consistent with the fund's stated goals. Although there are thousands of mutual funds on the market with goals ranging from preservation of capital to current income to long-term growth, most funds share some common characteristics. To achieve higher rates of return also involves a greater degree of risk. There are two characteristics in particular which make mutual funds a natural choice for investors, i.e. professional management and diversification.

The mutual fund is based on 'Put your money in trust, not trust in money'. This entices small investors, who generally lack expertise to invest on their own in the securities market and prefer some kind of collective investment in vehicles which can pool their managerial resources, invest in securities and distribute their returns there from among them on co-operative principles (Jha and Murmu, 2008). The mutual funds industry has grown manifold over the past few years. Assets under management in India have grown from INR1396 billion (US$35 billion) in 2004 to INR5051 billion (US$126 billion) in 2008. Globally too, the mutual fund industry has seen this surge in growth. In 2007, investor demand in the US for mutual funds increased significantly, with net new cash flow to all types of mutual funds reaching US$883 billion, bringing the total assets under management as of year-end 2007 to US$12 trillion, a record high. Similarly in the Middle East, Bahrain's mutual funds industry recorded a major surge in assets under management, rising to over US$15 billion during 2007, an increase of 73 per cent over the year 2006. This was a result of across-the-board growth, in funds investing in the region, overseas and in Islamic products. The flow chart below describes broadly the working of a mutual fund:

Concept of Mutual Fund:



Marketing of Mutual Funds Services in India:

"Mutual funds are essentially a service and with differences in the products being limited to plus or minus one percent, it is the service aspect of mutual funds that needs to be emphasized."

A.P. Kurian, Chairman, AMFI

The basic orientation of a firm's marketing effort involves an emphasis on goal achievement, satisfying customer needs and wants, recognizing societal requirements and using a systems approach. The combination of marketing strategy to market specific products at specific markets over a specified time period is the marketing mix. The combination of marketing variables such as product, price, place and promotion when blended together form a marketing strategy designed to satisfy the firm's customers. The concept of the marketing mix and the 4Ps of marketing were implemented basically by the goods oriented companies. Later many companies decided to shift from prominence of product marketing to service marketing. Indian mutual funds industry has come a long way since its humble beginning with the launching of Unit-64 by Unit Trust of India in 1964. The industry has witnessed significant growth since early 1990s. This period also coincided with the entry of mutual funds sponsored by public sector banks/financial institutions and later private sector mutual funds. Over a period of 45years this grew fairly successfully and gave investors a good return. A retail wave is hitting debt mutual fund schemes like never before. Debt fund schemes, which were considered an investment domain of corporate treasuries and affluent investors until some time ago, are witnessing sizeable investment inflows from small retail investors. Fear of an equity bust, rising interest rate and aggressive selling by distributors have resulted in a phenomenal increase in retail debt investments (*Menon, 2010*).

Traditional Marketing Mix:

"Marketing is so basic that it cannot be considered as a specific function. It is a whole business seen from the point of view of its final result, that is, from the customer's point of view".

Peter Drucker

The marketing strategy of "Seven P formula" is highly suitable for the mutual fund industry. To achieve the maximum result from the investors, they should be evaluated and re-evaluated before being asked to invest money in any mutual fund schemes. The first 4 P's i.e, product, price, place and promotion are considered as the basis or the cornerstone of any marketing process. Each of these needs to be carefully looked into to ensure that an appropriate value is assigned to each one of them. It is believed that the success of a product will vary depending on how well these 4 and now 7 elements can function together in the same conditions. The last 3 P's are a recent addition to the entire marketing process. It is felt that although the success or failure of a product depended largely on its price, product structure and characteristics, promotional efforts and the place, there are other three factors such as people, process and physical evidence which are are also essential for the marketing of services. People make the service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment. Process consists of the actual procedures, mechanisms, and flow of activities by which the service is delivered. Physical evidence consists of the environment in which the service is delivered and where the firm and the customers interact, and any tangible components that facilitate performance or communication of the service. It is imperative for any investor to ensure that his personal preferences for risk, and return and liquidity on investments are met at all times. Unfortunately, these preferences keep changing from time to time, and unless these changes are identified and corrective actions taken by reshuffling composition of investment portfolio, either by investor himself or by his investment managers, his investment objectives may not be attained. (*Gajiwala, 1999*) A model of 4P's and extended 3P's as well as 7P's of marketing mix is given below:

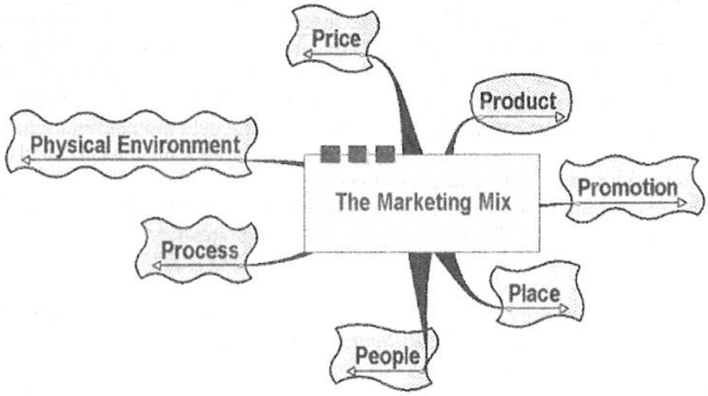


Table 1

Difference between: Concept of Service Marketing VS. Concept of Mutual Fund

Sl. No.	Concept of Service Marketing	Concept of Mutual Fund
1	Physical goods	Services
2	Tangible	Intangible
3	Homogeneous	Heterogeneous
4	Production and distribution are separated from consumption	Production, distribution and consumption are simultaneous processes.
5	A thing	An activity or process
6	Core value processed in factory	Core value produced in the buyer-seller interaction
7	Customers do not participate in the production process.	Customers participate in production.
8	Can be kept in stock	Cannot be kept in stock
9	Transfer of ownership	No transfer of ownership

Application of 7P's of Service Marketing to Mutual Funds:

The financial market is the backbone of any economic system. Indian economic growth is impressive but its stability and dynamism depend upon the financial system supporting it and the allocation of scarce capital across crucial sectors of the economy. The Dalal Street is likely to witness volatile trade and continue to take direction from overseas markets while domestic investors will decide according to the profit earned in the past.

Mutual Funds are the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds, derivatives and other assets have become mature and information-driven. A typical individual is not likely to have the knowledge, skills, inclination and time to keep track of and understand the causes and implications of the trend in price changes. A mutual fund company appoints professionally qualified and experienced managers who carry out each function in a way to increase the returns on the money invested by the people. Both marketing managers as well as the mutual funds service providers fulfil the needs of the target market by identifying, anticipating, and satisfying customer (investor) needs in the most profitable way through marketing research and other investigative techniques. Mutual fund companies primarily sell a service to the investors. The service of mutual fund consists of organizing, pooling and managing resources to the satisfaction of the investors.

The mutual fund industry mobilizes funds from the investing public to manage them efficiently, i.e., it creates an expectation of good returns in the mind of the investors and generates a desire in them to invest their money in mutual fund units/shares. It is all about getting the right product or service for the customer at the right price, in the right place, at the right time. The business history and the current practice remind us that without proper marketing, investment companies cannot get close to the customers and satisfy their needs. Today, as competitive pressure increases, marketing skills have been highly valued by organisations. What was once seen as a departmental activity within companies is now regarded as a frontline business attitude of mind for all employees. As mutual fund industry is viewed as a service provider, the study makes it imperative to apply the 7Ps to it, supplemented with real life examples.

1. **PRODUCT:**

The first P in the marketing mix is the product. In order to attract investors to the mutual funds of different companies, existing players are offering schemes that are fulfilling investor's expectations by way of good returns and appreciation besides providing liquidity. Whenever an investment company is having difficulty in selling the various schemes, it needs to develop the habit of assessing its products honestly by asking, **"Are these the right products or services for our customers of today?"** Most successful products and services are bought not sold. They are bought by people who have a need and who believe that the product or service will satisfy their need. Existing players have to differentiate the competitor's products, confirm that the product is superior, constantly evaluate whether their product or service matches with the market, how far the product's features benefit the customers etc. The perfect product must provide value to the investors. The value is in the eye of the beholder. Therefore the service providers' motto is : "**We must give our investors what they want, not what we think they want**." The product information should be informative, true, and complete. An investment company may spread its product information in any of the following ways: person to person, by representatives, dealers, salesmen, radio, T.V., word of mouth by customers, mail (in various forms), distribution at trade shows, seminars, telephones, fax, computer networks, product packaging, retail storefronts and the internet. Ideally, it should give the prospective customer all the information they need to buy on the spot. Selling more of the existing products to the existing customers probably needs new sales methods.

2. **PRICE:**

The second P in the marketing mix is price. A product is only worth what customers are prepared to pay for it. The price also needs to be competitive, but this does not necessarily mean the cheapest. It is the only element of the marketing mix that generates revenue, everything else represents a cost. Many companies have found that the profitability of certain products or services doesn't justify the amount of effort and resources that go into producing them. By raising their prices, they may lose a percentage of their customers, but the remaining percentage generates a profit on every sale. Sometimes one can combine products and services together with special offers and special promotions. Whenever an investment company is having difficulty in selling its various schemes, it needs to develop the habit of assessing the price of its business honestly by asking, **"What is the price that an investor can bear?"**

3. **PLACE:**

The third P in the marketing mix is the place where the company's product or service is actually sold. In marketing a product, manufacturing companies follow different strategies to place the product before the customer, i.e. direct selling, sending sales people to the prospects, telemarketing, and catalogs or mail orders. Similarly, every Mutual Fund Company develops the habit of reviewing and reflecting upon the exact location where the customer meets the intermediaries. Sometimes a change in the place can lead to a rapid increase in sales. Companies have to examine all methods of contact with the customer i.e. website, e-mails, phone, trade shows, traditional materials etc, and have to look at new ways of customer contacts. Whenever an investment company is having difficulty in selling the various schemes, they need to develop the habit of assessing the location of their products or services by asking, **"What are the right places for best location?"**

4. **PROMOTION:**

The fourth P in the marketing mix is promotion. Promotional schemes are introduced to attract more and more investors. Mutual fund companies continually experiment with different ways of advertising, promoting and selling the products and services. Whenever an investment company is having difficulty in selling the various schemes, they need to develop the habit of assessing the promotion policies of their business honestly by asking, **"What are the right promotion schemes for our products i.e. advertising, publicity, or selling methods?"** The rules of promotion are based on the following propositions i.e., 'Whatever method of marketing and sales are used today will sooner or later stop working.' Every investing company is developing new sales, marketing and advertising approaches in order to maintain stability in the marketing services. Small changes in the way the company promotes and sells products can lead to dramatic changes in the results.

5. **PEOPLE:**

The fifth P of the marketing mix is people. An essential ingredient of any service provision is the use of appropriate staff and people. To reap competitive advantage, it is essential to provide the right staff and train them appropriately to deliver the services which the organisation desires to deliver. Unlike the seller of consumer goods, persons involved in the sale of mutual funds and services should have appropriate interpersonal skills, aptitude, and service knowledge to provide the appropriate service, for which the consumers are paying. Whenever an investment company is having difficulty in selling the various schemes, it needs to develop the habit of assessing the people in their business honestly by asking, **"Have you engaged the right person in the work?"**

6. **PROCESS:**

The sixth P of the marketing mix is process. It consists of the procedures, mechanisms, and flow of activities by which services are consumed. These are essential elements of the marketing strategy. It is not just the attitude of the person that matters but the process they use to provide the service. The various processes of providing mutual fund services are after-sales service, delivery service, smooth buying and selling mechanism, etc. Whenever an investment company is having difficulty in processing the various schemes/products to the investors, they need to develop the habit of assessing the process of their business honestly by asking, **"Is the process of marketing appropriate?**

7. **PHYSICAL EVIDENCE:**

The seventh P of the marketing mix is physical evidence. Services are intangible, so the customer looks for physical clues about the quality, generation of data base, proof of service rendered, and benefits reaped by customers. Physical evidences consist of the environment in which the services are delivered to identify the interaction between the firm and the customers and thus to facilitate the communication of services. Whenever an investment company is having difficulty in identifying the physical evidence in the mutual fund services, they need to develop the habit of assessing honestly by asking, **"Have we failed in convincing the investors about the genuineness of our product and services?"**

Table-2

Comparative statement of 7P's of Service Marketing Vs. Mutual Funds:

Sl.	Particulars	Marketing Concepts	Mutual Funds Concepts
1	Product	What product we are selling	What services we are providing
2	Prices	How much we are charging for the product	How much we are charging for the services
3	Place	Where it is available	Whether we are selling them at the place of customer
4	Promotion	How we tell the customer about our product and promotion policies.	How we convince our people about the service we rendered.
5	People	Who are the people, will buy our product	Who are the people who will buy our services
6	Process	Whether the selling process is effective	Whether the selling process is effective
7	Physical evidence	Whether we can demonstrate the efficiency of the product	Whether we have accumulated sufficient data base to convince the customers

Conclusion

"The best place to start is where you are with what you have." — ***Charles Schwab***

Mutual fund industry is still taking baby steps in India. Marketing of mutual funds focuses on the most fundamental requirements of companies, which are - to identify customers, research their needs and preferences, analyse their attitude to promotion – as well as certain other factors that influence their purchasing decisions and persuade them to buy products and services from the company rather than a competitor. Planning a marketing strategy starts with a detailed and ongoing investigation of the market and its submarkets or segments. The biggest problem of the mutual fund industry is that the funds prefer bulk investors over retail investors and, hence, the distribution mechanism remains underdeveloped. Mutual funds will soon have to learn to live without the comfort of huge pools of easy liquidity from banks (Mehta, 2010). The time has come to undertake drastic and speedy action on this and grapple with a host of other issues. By December 2004 Indian mutual fund industry reached Rs. 1,50,537 crore. It is estimated that by 2010 March end, the total assets of all scheduled commercial banks should be Rs. 40,90,000 crore. The annual composite rate of growth is expected to be 13.4% during the rest of the decade. In the last 5 years we have seen an annual growth rate of 9%. According to the current growth rate, by the year 2010, mutual fund assets will be doubled. Stock markets all over the world over are characterized by ups and downs. Predicting the right moment to enter and exit the market consistently is virtually impossible. The best of fund managers also find it difficult to predict stock markets. This unpredictability is both an opportunity and a threat depending upon how we use it. While mutual funds have experienced unprecedented growth, intra industry as well as external competition has increased. Competitors from the other players in the financial sector are also aggressively offering benefits parallel to mutual funds with new products (Nayak, 2001). Unlike insurance, online trading has just about managed to capture and exploit about 8-12% of the entire economic potential. Indeed, there is a long way ahead. The next few years would undoubtedly be one of the best periods in terms of growth rate for these mutual fund companies if market players can take care of the 7P's of mutual funds to develop the market and to win the confidence of the investors.

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HOW INTERNET HAS CHANGED THE CONCEPT OF ADVERTISING

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(Source: http://www.presh.org/images/screens/img_ads_160.jpg)

Advertisement has travelled a long distance today. There are new mediums explored everyday to make an ad campaign successful. Internet in recent times has evolved as a popular advertising medium and become the favourite of the users.

Marketers can use this medium to reach consumers effectively in an age when traditional advertising finds it hard to attract audiences.

Today, one can hardly think of a world without banners, hoardings, posters, etc. Advertising is an activity without which no product can become a huge success. There are different forms of advertising available in the market. They can be categorized as print advertising, television commercials, radio ads and internet advertising.

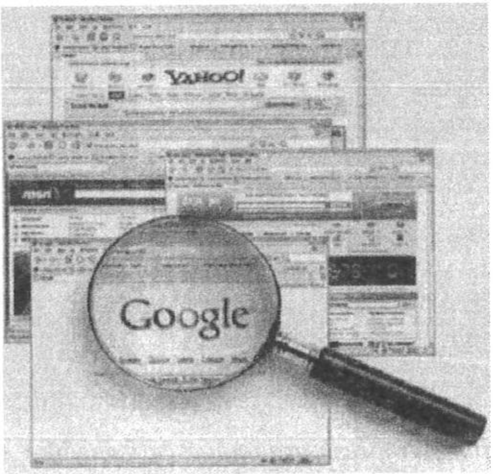
Internet as an advertising medium is a relatively new concept, but it is quickly being folded into the mainstream of the advertising industry. Visit any of the popular websites on the Internet. You will be flooded with plenty of online pop-ups carrying promotional messages. Advantages of online ads are that it is the internet users who decide what they want to see.

Advertisement is a communication process through which we pass information about a product to the consumer. But that is not enough, we need to get quick response from the receiver to know the effectiveness of our advertisement. One of the attractions of the Internet advertising is that its impact can be measured.

The best part of internet advertising is that you can publish the information quickly on the web pages, and content is not limited to any geographical area or time. The other benefit of internet advertising is that you can modify the contents at any point of time. Through internet, one can stream audio, video, text, animation, all at one point to create wider appeal.

Internet not only helps to capture maximum audience but also broadens the exposure. Internet is called the network of networks. Through Internet we can cover users available throughout the world. Internet advertising is versatile in nature and that is the reason why it stands apart from the traditional advertising medium. It is a highly flexible medium that allows you to make changes during the course of the campaign, as and when required, without incurring much additional cost.

If you go to web portals worldwide, you will see plenty of ads from different successful companies of the world like Citi, Compaq, Dell, Ford, GE, IBM, Intel, Merrill Lynch, Microsoft and Toshiba. It means major tycoons of business understand the importance of internet advertising.



(Source: http://www.increase-traffic.com.au/images/google_search.jpg)

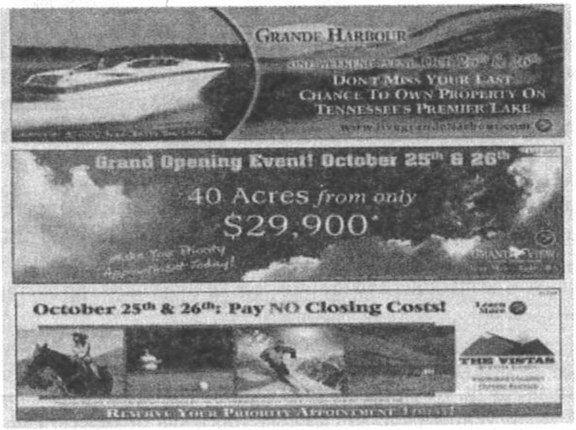
Now the question comes, how to go for this online advertisement. There are professional agencies available who offer internet advertising services for the website and online business. They advertise your website with popular search engines like Google, Yahoo and MSN. They can develop effective email campaigns, banner link programs, link building and other effective internet advertising options for your business. Gmail is also one of the best examples when it comes to internet advertisement. It provides 4 GB of email space free to its email users. In return the users agree to allow small text ads to be placed in their email IDs. Google's software checks the subject matter of each user and shows relevant ads to that particular user.

There are also other notable aspects of internet advertising. Even politicians are trying to reach voters and create awareness about their political agenda and their parties' manifestos. For the very first time, various political leaders across the world campaigned extensively on the internet, having realized that the internet offers attractive opportunities like fund- raising from supporters and advertising for new voters.

Advertisers need to appreciate that consumers today want to decide the time and place they would like to engage with the brand. While customers hate being talked to or instructed, there are excellent opportunities to invite them to a dialogue. Most traditional media don't give this opportunity to customers, but the Internet does.

Types of internet advertisement

There are several ways through which you can do internet advertisements. The primary form of online advertising is the banner ad which is usually an inch or less tall and as wide as the web page.



(Source:http://www.windwardwebdesign.com/images/banner-ads6.jpg)

Banner ads

This is the first kind of internet advertisement introduced on the net. A banner can highlight your product and by clicking on it, the user is taken to your website, where you can provide details about your product. Banner spaces are usually sold by impressions or banner views, but it is sometimes sold by click-thru, which makes you pay only when the user clicks on the banner.

Pop-up Ads

This type of ads will pop up on your screen when you visit websites. But with pop-up blockers one can easily block the pop-up banners. Therefore, it makes no sense in investing in this form of advertising as it very often annoys the viewer.

Floating Ads

This type of ads will appear when you go to a webpage, and they keep on floating over the page for 5 to 30 seconds. While they are on the screen, they obscure your view of the page you are trying to read, and they often block mouse input as well. These ads appear each time that page is refreshed.

Interstitial Ads

Interstitial pages are a form of advertisement on the web that appears between web pages that the user requests. Because interstitials load in the background, they are a preferred way of delivering ads that contain large graphics, streaming media, or applets.

Unicast Ads

A unicast ad is basically a TV commercial that runs in the browser window. It has enriched audio/video content. The ads can last anywhere from 10 to 30 seconds. These ads have similar branding power as a TV commercial. However, a unicast ad offers something that TV ads cannot -- the ability to click on the ad for more information.

Takeover Ads

Viewers visiting the website will see a large ad when they first come, and then the continuity is maintained by reiterating the same message throughout the site in the form of banners, side bars or buttons. The approach works very well for branding because the brand is visible to viewers throughout the visit to the site. Click-through rates are also high.

Contextual Ads

Contextual advertising is a type of online advertising commonly used for content-based websites. With contextual advertising, targeted ads appear based on the page's actual content. First, a contextual advertising system scans the text of a webpage for keyword phrases. Then, the system returns specific, targeted ads based on the content people are viewing. This is becoming very popular as the ads can be targeted based on the users' interests.

Advantages of internet advertising

One of the most important advantages of the online medium is that it enables two-way communication. It is the user who will decide when and how he wants to see a particular campaign unlike print and TV ads. In print and TV ads you are forced to see the ad, whether you want to watch it or not. Internet advertising medium is more personalized and target-oriented. The marketer and the prospective consumers can interact with each other.

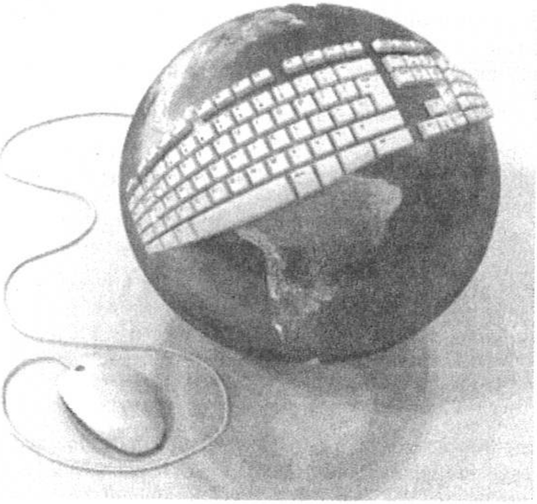
Cost effective

From the advantage side the cost of this medium is less, and it promises more to customers, if you compare it with other mediums of advertisement. When your budget is limited, internet advertising can be much more in reach than traditional methods. A small yellow-page ad can cost you lakhs of rupees. But in Google you can bid for advertisements on performance basis. That means, you are only charged when visitors click on the advertisements.

Targeting the audience

Since you can target your audience through internet advertising and track the effectiveness of ads, conversion rates from internet advertising is typically much better than traditional mediums. It is impossible to track how many people see advertising through traditional methods like television and newspapers. But in case of internet advertising, it allows the advertiser to track the number of impressions an ad gets and how many visits their business website gets from particular ads, making it easy to see what kind of conversion rates internet advertisements are getting.

Internet advertising has a greater range



(Source:http://www.topnews.in/files/Online-advertising.jpg)

Another benefit is that, internet is available throughout the globe. You can target the whole world at one shot, rather than trying to find different publications, radio stations and television stations that cater to a particular geographical area.

Evaluation of your advertisement

One of the greatest advantages of the internet advertisement is that, within a very short period of time, the marketer can know which ads have been successful in drawing the highest audience response.

Frequency and changes in your content

Business is highly dynamic in nature today and it changes with each passing day. Internet advertising allows you to make changes, as and when required, to meet the latest demands of the market. It is important for an advertiser to change the content of an ad banner at frequent intervals. On the other hand, if the ad exposure is too little, the ad message is quite unlikely to have the desired impact on the target audience. Internet advertising has the flexibility to modify the content at any point of time and one can also increase the time frequency of the ads.

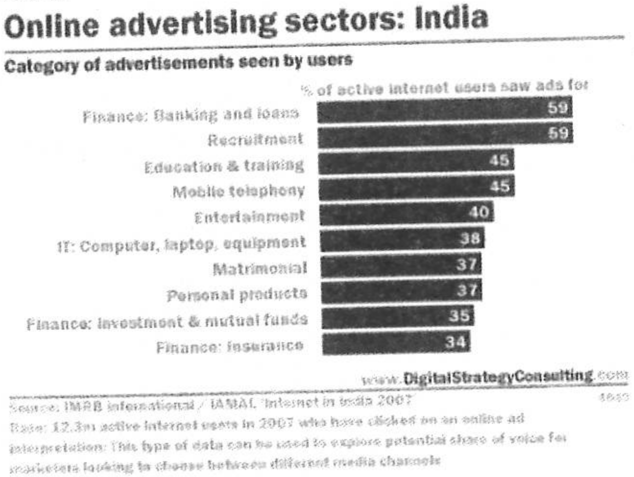
Internet advertising in India

India is very much touched by the fascinating world of the internet, and year after year the internet population in the country is rapidly going to increase.

Internet is becoming popular in India because Government has allowed private service providers to enter the market. In early days, VSNL was the only service provider. Now there are so many service providers like Airtel, Reliance, Tata Indicom, Aircel, BSNL, Sify etc. This has created competition in the market and the prices on the internet have gone down.

According to a recent research conducted by MSN, online advertisement is likely to cross the 100 million dollar mark by 2010. Day by day it is expected to increase.

We as users can hardly imagine our lives without the Internet, because we do so many things through the net like mailing, surfing, entertainment, e-commerce, data upload and download. Indian users are increasing their use of the internet and the major proportion of users have high purchasing power. In the long run, internet advertising will dominate other ways of doing advertisement, unless traditional methods of advertisements radically transform themselves.



(Source: http://www.digitalstrategyconsulting.com/images/Digital_Strategy_Online_Online_Advertising_Sectors_India_Small.jpg)

In the present scenario, most of the Indian advertisers are offering durable goods and financial services through websites. In the coming years it is expected to increase by leaps and bounds. Now organizations have developed internet advertising departments and are offering expert services such as advertising assistance and development and maintenance of websites for the clients.

The financial services sector has been using internet advertising extensively, notably HDFC and Citibank. These are the major players of this domain. Now moving forward, people of India will involve themselves extensively in online shopping in the near future, and things will be available at your fingertips. Marketers will also fix a separate budget for internet advertising.

Presently advertisers are targeting the youth market, because the youth are the focus of any marketing and they spend much of their money in garments, electronics and fashionable items. They are the users who use internet more than any other groups.

Another thing which we have observed is the mushrooming of the cyber cafes in all major cities and towns of India. Internet advertising will definitely grow in India in future because of the unlimited potential of the internet.

Problems in internet advertising

The problem with internet advertisements are unwanted pop-ups and applications. There are some ads on the internet which are unethical and illegal. Examples are Spawn pop-ups and insert advertisements. They will alter your system settings after opening or visiting a website. Such applications are called spyware .These applications are difficult to be removed from your system. A large number of online users do not know how to protect themselves from these harmful applications. The second problem with Internet advertising is privacy. The use of online advertising has implications for the privacy and anonymity of users also. Therefore, you have to very careful while you make online deals or are exposed to internet ads.

Conclusion

Internet advertisement is gaining momentum rapidly as many dotcoms are registering themselves on the internet. It means, there is a bigger market to explore. Marketers need to recognize this area and its importance. They have to create interesting and interactive ads to attract consumers.

As discussed earlier, the most important advantage of the internet is that it drastically reduces the cost of communication. Thus, any industry which depends heavily on the flow of information between the company and the consumers can leverage the internet to make the process cost-effective and less time-consuming. There are some industries like financial service sectors which have already started using this medium. The other industries such as education, healthcare and entertainment sectors are also slowly realizing the potential of this medium. Very soon they are also going to join the bandwagon.

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Dr. Kiran Mazumdar Shaw --- A Leadership Profile---

*Ms. Archana Choudhary
**Ms. Lakshmi Y R

Abstract

'Dr.Kiran Mazumdar Shaw – A Leadership Profile' is an effort to study leadership by using a case study approach. The authors here have attempted to study a charismatic personality, Dr.Kiran Mazumdar Shaw who braved all odds to create a niche for herself in the biotech business.

Introduction

The Economist described her as "India's Biotech Queen", while the New York Times refered to her as "India's mother of invention". Although she often calls herself an "accidental entrepreneur" she strongly believes that women can enter different fields as well as men and they cannot be confined to the stereotypical careers like teaching or administration. Dr. Kiran Mazumdar Shaw, Founder, Chairperson and Managing Director of Biocon India Limited (Biocon hence) has always been in the forefront when it comes to representing the biotech industry. In 2003, she led the CII National Task Force on biotechnology that called for tax incentives for patent applications, clinical trials and developments, and reduction in custom duties on import of equipments for the biotech industry. She has also been enlisted as one of the 48 Heroes of Philanthropy by Forbes Asia. (It is also to be noted that out of 48 people, only four Indians made it to the list, and all were women).

Education and Upbringing

Born on March 23, 1953 in Bangalore, Dr.Kiran Mazumdar Shaw had an upper middle-class upbringing that encouraged pursuing higher education. Her father worked as Chief brewmaster with the United Breweries Group. She was educated in the Bishop Cotton Girls School and Mount Carmel College at Bangalore. When at school she often felt embarrassed to think that her father was a brewer as she considered it to be a tainted profession. When she spoke about her sense of shame to her father regarding his profession, looking at her in the eyes, he explained that brewing was a science and then advised her not to make judgments on things, people or issues on the basis of partial information. He added that there was truth in everything that is around, and that everything must be seen in its entirety. This advice, according to her, was a game changing moment that became basic to her life's philosophy.

After schooling Kiran wanted to pursue medicine but fell short of qualifying for a seat on merit basis. When she requested her father for support in paying the capitation fee to make it to medical college he insisted that she should learn about meritocracy. She went on to argue that he should give her the money that he would otherwise save for her wedding, an utterance which did not bring any change in his stand. Hence she went on to pursue her graduate honours degree in Zoology in Bangalore University in 1973 but always wanted to study something that had an industrial application. So she decided to learn more about brewing, and that took her to Ballarat College in Melbourne, Australia to specialize in Malting and Brewing Technology and qualify as a Master Brewer in 1975. Kiran Mazumdar Shaw started her professional career as a trainee brewer in Carlton & United Beverages and worked as a consultant in India before moving to United Kingdom.

Kiran – The Entrepreneur and the Birth of Biocon India

Leslie Auchincloss, an Irish businessman, owner of Biocon Biochemicals Limited was looking for someone to make a plant enzyme, papain (an enzyme derived from papaya) in India. He met Kiran through a common business associate and offered her the partnership for Biocon Biochemicals Limited with its operations in India. Initially, Kiran was hesitant saying that she had neither money nor experience in business but when Leslie persisted she relented and decided to give it a try and went off to Ireland to study the process of making papain. Thus on November 29, 1978 Biocon commenced operations as a joint venture between Kiran Mazumdar-Shaw and Biocon Biochemicals Limited, an Ireland based multinational. Biocon began the manufacture and export of Papain, a plant enzyme, and Isinglass, a marine hydrocolloid, which are key products for the brewing industry. Initially Kiran had start-up problems like getting finance and workforce. The term biotechnology was new to India during those times and that added to the problem of fetching credit from bankers. Finally she managed to get credit from Canara Bank Limited. Biocon initially operated from a garage and started with a meagre amount of Rs 10000 invested on manufacturing only papain and Isinglass. The business was booming and in two years Biocon established a steady flow of exports to Ireland. The manufacturing activity shifted to a 20-acre site near Bangalore in 1983.

Kiran realized that the worldwide enzyme market was just about $ 1 billion in size and that her growth needs were higher. This led to expansion plans looking for greener pastures like developing Koji enzymes in which Japan had the sole knowhow, and Kiran went on to manufacture the same that met international quality standards.

Her Contribution in the Field of Biotechnology

In her next move Kiran turned her attention to biopharmaceuticals since it used the same protein technology as in the enzyme industry that she had already mastered. She was also well aware of the regulatory hurdles that were high in this industry but decided to venture considering the ample opportunities prevalent in this field. In her own words, the best leadership lesson lies in 'building an organization based on a strategy of differentiation and challenging the status quo'. And she believed that 'Vision is an evolving process and not something that has to be rigidly adhered to'. Thus, in 1989, HLX (Helix Biotech Limited) was incorporated as a pharmaceutical biotechnology company under Biocon which later diversified into pharmaceutical bulk activities. Kiran realized that with one in five persons highly prone to diabetes in future, India would prove as a sought-after drug-testing ground. Biocon shifted to becoming a fully integrated bio-pharmaceutical enterprise having a well balanced business portfolio of products and services with a research focus on Diabetes, Oncology, and Auto-immune diseases. During this transition, Biocon established 2 subsidiaries: Syngene (1993) to provide development support services for discovery research and Clinigene (2000) to cater to services in clinical development.

i. Syngene was incorporated to conduct research for third party clients in the area of drug discovery and development. Syngene's strong areas were those of molecular biology and synthetic chemistry that were complementary to Biocon's expertise in the areas of fermentation and microbial genetics. Syngene, the group's custom research subsidiary – the first of its kind in India – has about 1,000 scientists and engineers and enjoys the lowest attrition rate in the industry.

ii. Clinigene was incorporated to conduct longitudinal clinical studies in select disease segments as a wholly owned subsidiary of Biocon. In 1998 Biocon became the only USFDA-qualified producer and exporter of statins.

Business Achievements

About Biocon India business

The Biocon group is an innovation-driven and a fully integrated healthcare enterprise through strategic focus on biopharmaceuticals and research services. Biocon's value chain navigates through the entire length of discovery, development and commercialization of novel therapeutics. Biocon currently delivers products and solutions to partners and customers in approximately 75 countries across the globe. Many of these products have acceptance from USFDA and EMEA.

Global Presence

Biocon India Limited made big news in March 2004 when it went for an IPO to raise Rs 300 crores to fund its huge capital expansion plans. The issue was oversubscribed 32 times. Biocon closed on Day One of listing on the bourses with a market value of $ 1.11 billion, to become only the second Indian company to cross the $ 1 billion mark on the day of listing. In 2008 Biocon increased its global presence with its first acquisition in Europe – buying 70% of

AxiCorp for US$39m (€30m).

Current Financial Status

For the financial year 2009-10, Biocon reported that their revenues have crossed half a million dollar mark. Biocon Group's revenues for the financial year ended March 31, 2010 (including German subsidiary AxiCorp) stood at Rs 2,405 crores which was up by 44% on a year on year basis. Profit After Tax stood at Rs 293 crores (YoY growth was 215%) with a total headcount of more than 4,500 employees (Biocon, Syngene and Clinigene together). (Exhibit 1 & 2)

In 2008-09, Biocon reported a growth of 53%, though organic growth (excluding Axicorp) was only 8%. The 8% growth in company's operating income (excluding Axicorp) was led by 25% growth in custom services business while the biopharmaceutical business grew by 10%. However, Biocon's sales growth over the past few years are not comparable with the growth in the previous years, because of divestment of the enzymes business (with effect from October 2007) and acquisition of Axicorp (April 2008, consolidated for three quarters of 2008-09).

Human Capital at Biocon

Biocon's human capital includes biologists, chemists, medical practitioners, pharmacologists, engineers, finance/legal/marketing analysts, HR generalists, and general administrators. Five per cent of Biocon's employees have PhD degrees, 41% have a master's degree in science, and the remaining are graduates with a bachelor's degree in science, commerce or arts. Fifteen per cent of Biocon employees are women and the average age of the employees is 29 years.

Biocon places great importance on its HR. At least 8 per cent of Biocon employees at the senior level have been with the company from the beginning. Nearly 40 per cent of the staff have been with Biocon for over five years while 35 per cent have worked for about two years for the company. It is also interesting to note that one-third of the company's employees (including the founder CMD, Kiran Mazumdar) are women.

While the company recruits strictly on merit basis, Biocon has set up a Women's portal, to give women special attention. In fact, one of its innovations - an in-house day-care centre for the children of the staff, with a specialist monitoring the development of the children was set up mainly for women. The day-care centre of Biocon has helped improve productivity and cut attrition to some extent. Biocon also has an in house healthcare centre, which actually helps the company save nearly Rs 30 lakh on routine medical check-ups for staff by cutting down travel time. The Rs 550-crore company has grown from 60 employees a decade ago to a 4500-strong workforce. The employee attrition last quarter was 7% and last year (Financial Year 2009) it was over 20%.

Directions Ahead in the field of Bio Technology

Biocon is conducting Phase-III trial of oral insulin and is hopeful of concluding it in the second half of 2010. Other drug development programmes for psoriasis and rheumatoid arthritis are also under Phase-III clinical trial. In terms of R&D, Biocon is planning to invest around Rs 200 crore in 2010-11 in R&D and is ramping up its Biocon Research Laboratory at an investment of Rs 70 crore.

Creating Awareness of Issues

A Price water house Coopers (PWC) study in April 2010 estimates that India will have 73.5 million people afflicted with diabetes by 2025 and the total diabetes bill is expected to reach about US$ 30 bn. Biocon realized that creating patient awareness should be the first step towards treating diabetes, and hence launched two extensive awareness campaigns - the Basalog Breeze 2 program for glucose monitoring and the "Winning with diabetes" helpline which is a patient support initiative helpline. In addition, they have also launched a radio campaign on "Winning with diabetes", an awareness program on self monitoring of blood glucose.

Corporate Governance @ Biocon

Biocon and its Board of Directors are committed to high standards of corporate governance and have in place appropriate structures and reporting systems. Biocon's Board of Directors is headed by an Executive Chairman and comprises one Executive Director and six Non-Executive Directors. It meets regularly through the year at the head office in Bangalore, with ad hoc meetings when necessary. Its agenda includes approval of Company Strategy and the Annual Business Plan.

The Board is assisted by an Audit and Remuneration Committee. Both operate under clear terms of reference which outline the authorities and duties of each Committee, allowing them to examine any information they consider relevant and take independent advice wherever necessary. The Board acknowledges responsibility for Biocon's systems of internal control and review of their effectiveness.

Corporate Social Responsibility

Biocon firmly believes that its corporate social responsibility lies in bringing effective primary healthcare services to the doorstep of the less privileged rural and urban sectors in India. Hence Biocon Foundation was established in December 2004 to conceptualize and implement the CSR mission of providing equal access to essential healthcare services, education and economic opportunities, thereby accelerating social and economic inclusion. (Exhibit 4)

Biocon aims to empower the under-served communities by:

- Ø Establishing primary healthcare centres (PHCs),
- Ø Actively creating awareness about disease prevention,
- Ø Improving public health and sanitation,
- Ø Building Infrastructure, and
- Ø Initiating programs in education.

The company addresses the main community health problems by providing preventive, promotive, curative and rehabilitative services through promotion of proper nutrition, maternal and childcare, family planning, immunisation against major infectious diseases, prevention and control of locally endemic diseases, health education and appropriate treatment.

In an endeavor to serve the society and take interest in diseases and their prevention, Dr.Kiran Mazumdar Shaw also started a joint venture with Dr. Devi Shetty's Narayana Hrudayalaya to work on Oncology. Biocon Foundation also launched Arogya Raksha Yojana, a unique micro-health insurance scheme for rural India in association with Narayana Hrudayalaya.

Kiran- The Person

Before being known as the Biotech Queen, Kiran was famous in her own right. She is now known as a socialite, the voice of the biotech industry, a civic activist, an event manager par excellence, and an art collector.

Kiran got involved with the conference 'Bangalore Bio', brought together other biotech entrepreneurs to form an association, and became a vocal spokesperson of the industry at the Centre. She has consistently proved that there are always better alternatives of handling situations when hurdles come one's way. She often emphasizes the importance of failures to value success, similar to the importance of bus rides to value chauffeur-driven cars. Although her lifestyle is sometimes seen as an indulgent one, she is frugal in deciding where to put her money. Kiran drives a Mercedes, but does not buy expensive jewellery. “Mercedes is a business need, jewellery is not”, she remarks, appreciating the fine engineering that goes into a Mercedes.

Kiran is married to Mr. John Shaw, currently the Vice Chairman of Biocon Limited. Shaw has been with Biocon since 1999. Shaw worked for over 30 years with Coats Viyella Plc. He was also the Chairman of Madura Coats Ltd before joining Biocon. Shaw has been Kiran's partner, advisor, confidante and mentor. He is also an avid art lover like Kiran.

Kiran is the recipient of several prestigious awards including the Nikkei Asia Prize, 2009 for Regional Growth, the 'Veuve Clicquot Initiative For Economic Development For Asia' among many others. Her most cherished awards are the national awards, Padmashri (1989) and Padma Bhushan (2005) presented to her by the President of India, for her pioneering efforts in Industrial Biotechnology (Exhibit 5). Kiran does not believe in the hierarchical style that is prevalent in many traditional Indian companies as she considers it to be detrimental to growth, efficiency and success, and a misfit in the dynamic decision making scenario in the business environment.

The Art Connoisseur and Patron

Kiran had been collecting art religiously even during the times when she did not have adequate money to spend. A fan of contemporary art, her collection includes the likes of M F Husain and Anjolie Ela Menon. Although she does not buy very expensive paintings, her average purchase would be close to worth Rs.15000, and she has never sold any painting that she bought, reasoning that she enjoys art and that she is not an art investor. Kiran admits to having been inspired by Ayn Rand, Jack Welch, and above all, by Infosys founder N. R. Narayana Murthy who has supported many causes in health, education and insurance. Kiran Mazumdar-Shaw contributed $10 million to establish the 1,400-bed Mazumdar-Shaw Cancer Centre in Bangalore. Due to open this year, it will provide free care to poor patients in the evening. She also donates $2 million a year to her Biocon Foundation, which runs a micro health insurance scheme that covers 1,00,000 villagers. Apart from this she has also committed $3 million to the Indian School of Business in Hyderabad.

Leadership Qualities of Kiran Mazumdar Shaw

Envisioning:

Though Kiran addresses herself as an 'accidental entrepreneur', she had the ability to always look at the big picture. She articulated a compelling vision, mission and strategy that incorporated a multi-cultural and diverse perspective which helped to connect all stakeholders on a global scale. Her venture into creating Koji enzymes by recruiting an R&D team in 1984 proved her transformation from an accidental entrepreneur to an entrepreneur having a vision.

Kiran spotted opportunities well ahead of others. She was able to envision that it was the enzyme market that was limited and not the usage of enzyme technology which can be used as the basis for manufacturing biopharmaceuticals. That is why she framed a strategy based on diversification rather than on expansion. She also realized that India, having a high estimated diabetic population for future would prove to be the most sought-after place for drug development and testing, and thus made an entry into clinical research and testing by launching Syngene in 1994.

"If I can build a company like Biocon, anyone can… The first step was to dream, however big or small…. If you have a vision, no matter how big or small, a plan, no matter if it is imperfect, but if there is passion and conviction for it, success is inevitable", says Kiran Mazumdar Shaw.

Empowering:

Over the years, things changed as Biocon grew in size. The two years following the IPO also coincided with an inflection point in Biocon's growth. Kiran had to focus more on company strategies and less on other matters. Over the years, Kiran had just not built a company, she had also built a set of companies and a team of entrepreneurs. She empowered employees at all levels of the organization by delegating responsibilities and sharing information. In fact, all the business heads in Biocon are encouraged to function as surrogate entrepreneurs enjoying full freedom to do what they want, while Kiran formulates the broad strategy and functions as the company's ambassador.

Team Building:

Kiran formed a Research and Development team in 1984 to work on new areas of enzyme technologies. Unilever, her biggest customer advised her to stay focused on her existing business but that was not to be. Kiran learnt from her collaborators that the industry was dependent on Japan where 'Koji enzymes' were developed at a very high cost. The process for creating 'Koji enzymes' was a complex one and the knowhow to manufacture it was not available outside Japan. Biocon R&D team however started from scratch and developed their own manufacturing process and became a small-scale producer of sophisticated and specialized 'Koji enzymes' that matched its Japanese counterparts in terms of quality. This is how Kiran was successful in not only building a team but also energizing and motivating employees to achieve the organization's goals.

Motivating

According to Kiran, giving high levels of responsibility is a large motivational factor. To perform well under this kind of pressure introduces a feeling of achievement. Awards and incentives are important but they cannot be equalled to responsibility, which takes the employee to an emotional crest. Nothing surpasses such recognition in the organization. It is a primal human instinct to strive for fame and feel wanted by others. According to Kiran, any well- meaning entrepreneur should address this issue within his or her organization.

Outside Orientation:

Kiran concedes that customer relationship and confidence building measures are instrumental to Biocon's growth. That is the reason why she makes it a point to make the employees aware of outside constituencies such as customers, suppliers, shareholders, other interest groups and the local communities affected by the organization. Kiran also strives to give added value to her customers and shareholders. She often felt that as the company grew, the equation with the customers changed. Earlier, client meetings were under a cloud of patronization but now they promote interactions of equal minds.

Emotional Intelligence

Kiran considers herself lucky that Biocon has the right people with proper application of skills and an emotionally intelligent workforce whose members have self-awareness and treat others with respect and understanding. She attributes this to a very rigorous selection process at Biocon. The employees are encouraged to interact so that the osmosis of ideas prevents territorialism and holds the organization together as a unit. Kiran believes in informality as rigid structures decimate employee morale. For people to express themselves, organizational hierarchy must be reduced to the minimum and this stands true for her too.

At Biocon, the Indian management style is adapted to encompass the gender sensitivity issues. Women are encouraged not to travel at odd hours and if they must travel to the interior areas of the country, a male escort is provided. Also the company provides daycare centres for the children of their employees. These considerations address the need for empathy towards women employees.

Kiran Mazumdar Shaw also concedes that as a woman she does tend to be more sensitive to people's needs at a personal level.

Global Mindset

Kiran's perspective of Biocon has been a global one since its inception. From the day Biocon came under the global Unilever umbrella when the latter bought over Biocon's Irish partner, they were enthused to adopt the best global practices. Kiran was also an equitable employer and looked after her employees well. She was a pioneer in Bangalore to introduce an egalitarian culture at the workplace.

Dr. Kiran Mazumdar Shaw, a charismatic leader who braved the odds to create a niche for herself in the biotech business aspires to launch a drug under the "Made in India" label in the coming years (referring to the oral insulin drug that is currently undergoing Phase III clinical trials[ii]).

Perseverance

Kiran Mazumdar Shaw had an aristocratic upbringing which included an all-round education. She has always had strong values. Though her business went through tough times, she hung on because of her ability to remain focused. Such was her perseverance that even if it took well over a decade before Biocon showed signs of becoming a larger company she kept herself committed to her goal.

In 1985, when Biocon had a 3-month strike, analysts were certain Mazumdar Shaw would shut shop and look for a brewing job again. But she managed to tide over the "worst leadership crisis" with unexpected grit. She automated manufacturing and began employing only graduates.

She would often push hard at the system and would not budge till she got the desired outcome. This shows that her willpower was very strong. She was seen as a tough person even to the point of arrogance, but the arrogance grew from her passion for business rather than from a sense of superiority.

Conclusion

She was a pre-eminent spokesperson of the biotechnology industry. Her activities were not only limited to her own enterprise whilst she was actively involved in the formation of biotech entrepreneurs. She also became a vocal spokesperson of the industry at the centre. Those who know Kiran Mazumdar Shaw are sure she will be able to make it to the top inspite of all odds.

The Indian Biotech sector is on a growth trajectory with the potential to deliver $5 billion revenues by 2010 and $20 billion by 2020. If the National Biotech Strategy is successfully implemented, this ambition will be easily achieved. Biocon's focus is on creating a strong educational foundation in terms of higher and specialized education and on forging strong links between Industry and Academia.

Annexure I

General Information About Biocon

Biocon Limited is a fully integrated biopharmaceutical company focused on biopharmaceuticals, custom research and clinical research.

Subsidiary Companies:

Syngene International Limited is a custom research organisation offering synthetic chemistry and molecular biology services for early stage drug discovery and development.

Clinigene International Limited is a clinical research organisation offering Phase I-IV clinical trials and studies for novel/generic molecules to international pharmaceutical majors.

Biocon Biopharmaceuticals Private Limited (BBPL) is a joint venture with CIMAB to develop and market a range of monoclonal antibodies and cancer vaccines.

AxiCorp GmbH is a Friedrichsdorf (Germany) based pharmaceutical marketing company and is amongst the fastest growing in Europe. Biocon Limited acquired a majority stake in AxiCorp GmbH (70%) in February, 2008.

NeoBiocon FZ LLC is a research and marketing pharmaceutical company based in Abu Dhabi. Incorporated in January 2008, NeoBiocon is a 50:50 joint venture with Dr. B.R.Shetty, MD of NeoPharma, Abu Dhabi.

Annexure II

Milestones

- Biocon is India's first biotechnology company, established in 1978
- Biocon is India's first biotechnology company to export microbial enzymes to USA and Europe
- Biocon is the first biotechnology company to receive ISO 9001 certification in India
- Syngene, a Biocon subsidiary, is India's first custom research company in drug discovery
- Biocon is the first Indian company to be approved by US FDA for the manufacture of lovastatin, a cholesterol-lowering molecule
- Biocon's proprietary bioreactor, the PlaFractor™, receives a US patent
- Biocon's subsidiary, Clinigene, has India's first CAP (College of American Pathologists) accredited clinical research laboratory, setting the benchmark for laboratories in India
- Biocon is awarded the Biotech Product and Process Development and Commercialisation Award, 2001 by the Department of Biotechnology, Ministry of Science and Technology, Government of India
- Syngene is awarded the Certificate of Excellence for Export Achievement by the Government of India, for two consecutive years 2002-2003
- Biocon is the first company, globally to manufacture human insulin, INSUGEN®, using a *Pichia* expression system, 2004
- Biocon launches BIOMAb EGFR® India's first anti-cancer, therapeutic Monoclonal Antibody-based drug for treating solid tumors of epithelial origin, such as head & neck cancers, 2006
- Biocon divests its enzymes division to Novozymes, focuses on biopharmaceuticals, 2007

- Syngene receives "BioServices Company of the Year", BioSpectrum Awards, 2007
- Biocon's BIOMAb EGFR® wins "Product of the Year", BioSpectrum Awards, 2007
- Biocon acquires a 70% stake in German pharmaceutical company, AxiCorp GmbH for a consideration of €30 Million, 2008
- Biocon launches a Safety Device in the form of pre-filled syringes for two of its life saving products, GCSF (granulocyte-colony stimulating factor) and EPO (Erythropoietin) in collaboration with Safety Syringes Inc. ERYPRO Safe™ and NUFIL Safe™ are the first two drugs that will marketed using this novel device with other injectable products to follow in the future, 2008
- Biocon and Abraxis Bioscience launch ABRAXANE in India for treatment of Breast Cancer, 2008
- Biocon is ranked among the top 20 global biotechnology companies (Med Ad News), 2008
- Biocon is the 7th largest biotech employer in the world (Med Ad News), 2008
- Biocon announced the results of an ascending dose study on its oral insulin drug (IN-105) at the European Association for the Study of Diabetes (EASD) meeting in Rome, 2008
- NeoBiocon and Abraxis Bioscience launch Abraxane in The UAE for the treatment of Breast Cancer, 2008
- Biocon's Syngene partners with Sapient Discovery to expand integrated drug discovery offerings, 2009
- Biocon's Syngene and DuPont Crop Protection Forge Alliance Partnership, 2009
- Bristol-Myers Squibb and Biocon's Syngene open new R&D Facility at Biocon Park, 2009
- Biocon launches BASALOG - long lasting basal insulin for Type 1 & Type 2 Diabetics, 2009
- Biocon inks partnership with ISB to launch the Biocon Cell for Innovation Management, 2009
- Biocon Announces Strategic Collaboration with Mylan to enter the Global Generic Biologics Market, 2009

Annexure III

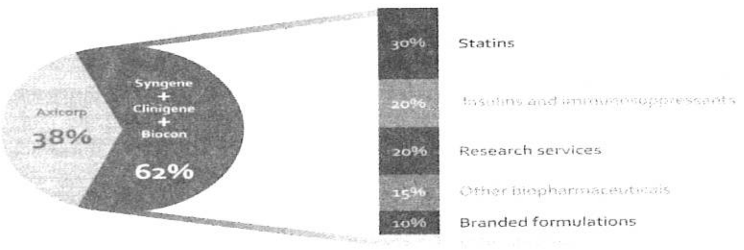
Exhibit 1

Revenue Mix of Biocon FY 07-10 (column 1: Rs in Crores) (column 2 USD million)

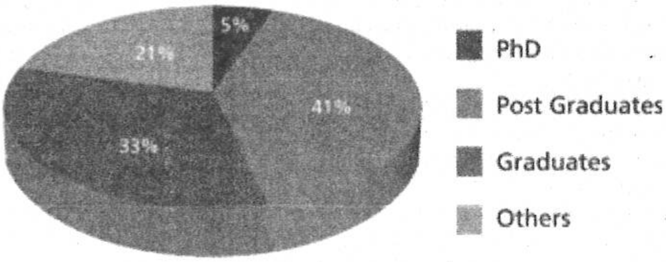
	FY07		FY08		FY09		9 months-FY10	
Biopharma products	742	164	832	208	915	199	846	180
Research services	135	30	176	44	225	49	207	44
Enzymes	109	24	46	12	-	-	-	-
Others	4	1	36	9	54	12	26	6
Sub Total	990	220	1090	273	1194	260	1079	230
Axicorp	-	-	-	-	479	104	660	140
Grand Total	990	220	1090	273	1673	364	1739	370

Exhibit 2

Revenue Mix of Biocon, Its Subsidiaries & Product and Service Lines (FY 2010)



Intellectual Profile of 4500+ Personnel



Annexure IV

Exhibit 4

CSR activities

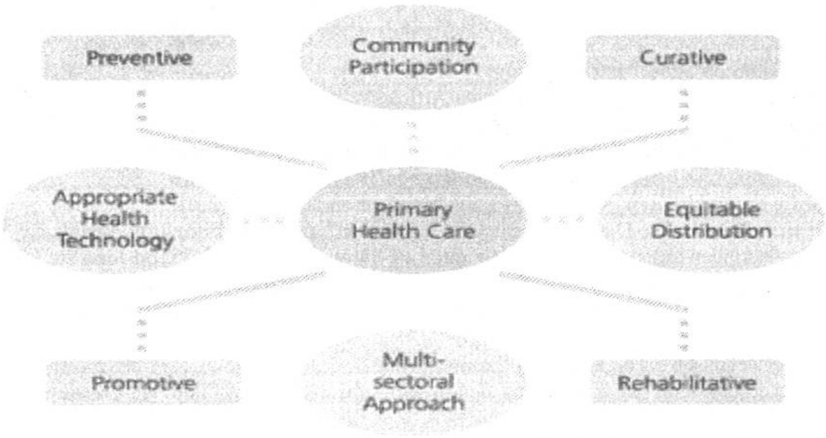


Exhibit 5

Awards won by Kiran Mazumdar-Shaw : (Extract, not a comprehensive list)

2009	Honoured with 'Nikkei Asia Prize' for Regional Growth
	Honoured with 'Express Pharmaceutical Leadership Summit Award' for Dynamic Entrepreneur
2008	Honorary Degree of Doctor of Science from the Heriot-Watt University, Edinburgh
	Honorary Degree of Doctor of Science from the University of Glasgow
2007	Honoured with the, 'Veuve Clicquot Initiative For Economic Development For Asia' award
	Honorary Doctor of Technology, University of Abertay, Dundee (UK)
2005	Padmabhushan Award , one of India's highest civilian honours, from the President of India, Dr. APJ Abdul Kalam
	Honorary Degree of Doctor of Science (Honoris Causa) from Indian Institute of Technology, Roorkee
	The Indian Chamber of Commerce Lifetime Achievement Award

Honorary Doctorate from Manipal Academy of Higher Education (MAHE), in recognition of outstanding achievements in biotechnology and industrial enzymes
Rotary Award for Corporate Citizenship
Business Leader of the Year Award - Biotechnology, Chemtech-Pharma Bio Awards

2004 Honorary Doctorate of Science from Ballarat University, in recognition of pre-eminent contribution to the field of biotechnology
Business Woman Of The Year Award, The Economic Times

2003 Alumni High Achiever Award, Australian Alumni Association

2002 Karnataka Rajyotsava Award for pioneering biotechnology in India, the Government of Karnataka
Best Entrepreneur: Healthcare & Life Sciences Award, Ernst & Young
Sir M. Visvesvaraya Memorial Award for contribution to biotechnology, Federation of Karnataka Chambers of Commerce & Industry (FKCCI)

1999 Woman of the Year Award, International Women's Association, Chennai

1998 Golden Jubilee Felicitation, Mount Carmel College, Bangalore

1989 Padmashri for pioneering biotechnology in India, Government of India

1987 Outstanding Young Person Award, Jaycees India

1983 Best Small Scale Industry in Karnataka Award, Rotary Club, Karnataka
Best Model Employer Award, Rotary Club, Karnataka
Outstanding Contribution Award, AWAKE

1982 Best Woman Entrepreneur Award, National Institute of Marketing Management, India

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