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## **LINKAGES IN INDUSTRIALISATION: NALCO & DOWNSTREAM UNITS**

**SHIKTA SINGH\***

### **ABSTRACT**

*This paper focuses on the development and the determinants of forward linkages between NALCO and other manufacturing sectors using data for 2000 to 2012. It studies the various industrial units dependent upon NALCO for its output. Despite the substantial increase in the production of NALCO over the years, the linkage coefficients suggest that NALCO creates a least amount of output coefficient through its demand linkages domestically. Our result also suggests that, most of the industry's output goes for export thereby generating foreign exchange.*

**Keywords:** *Linkage, Downstream, Ancillary, Forward, Backward linkage, Export Coefficient*

### **1.1 Introduction:**

Odisha has been in poverty and mystically standing on the threshold of potential prosperity for a pretty long time but unable to cross the line and step ahead to be counted as a developed state. In terms of potential value of minerals buried under the soil of Odisha, this is one of the richest states in India but ironically in terms its proper exploitation and the human development indicators, it has the dubious distinction as the poorest state in India. Sixty five years after our glorious independence, the state of Odisha is still languishing in backward, conventional and stagnant agrarian economy, and extremely weak industrial base, gross unemployment and abysmally low incomes with dire distress and abject poverty.

The State of Odisha has vast reservoirs of natural resources- minerals, marine, forests, agricultural land and a long coastline of 480 kms along the Bay of Bengal to spur industrial growth and development. As far as natural resource base is concerned, Odisha constitutes 4.74% of the landmass and 7.47% of forest coverage of India. The state occupies an important position in the mineral map of India both in terms of mineral deposits and its production. It accounts for nearly 18.4% of total mineral deposits and contributes 9.7% of country's production. Moreover, the state is endowed with rich mineral deposits which offer enormous scope for converting these resources into national wealth. Orissa accounts for a vast and diverse range of minerals and is endowed with 98% of country's chromites, 95% of nickel ore, 77% of graphite 70% of bauxite, 32% of mineral sand, 34% of iron-ore, 29% manganese ore, 28% of coal reserves, 25% of fire clay, 21% of vanadiferous magnetite, 13% of china clay deposit and 10% of water resources.



## *From the Chief Editor's Desk*

It is a great pleasure to announce that the 3<sup>rd</sup> volume of our journal "BIITM Business Review" is just published. It contains quality articles with rich inputs on various domains of management. We extend our heartfelt thanks to all the contributors from various institutions and hope their cooperation in future also.

We are trying best to improve the quality of the journal and striving our continuous effort to achieve this goal. We hope the journal will meet its goal by providing quality inputs to students, faculty members researchers and to academic fraternity as a whole.

The editorial board would like to extend heartfelt thanks its Chief Patron, Mr. P. K. Balabantray, Principal, Prof. P. R. Pattanayak and Advisers for their encouragement and support for the success of this issue.

**Dr. Pratap Kumar Tripathy**  
Chief Editor

## From the Editor's Desk

It gives us immense pleasure in informing you that our journal "BIITM Business Review" has become popular and gain acceptance in a short span of time. We are proud to host articles with the ISSN number as it enhances the recognition and credibility of the articles published in the journal.

The articles in this issue are a selection from the work done by a group of researchers and practitioners on some of the important aspects of management and related fields. It is our continuous effort to bring out the versatility of the concepts in the light of providing knowledge and satisfaction to our readers.

The editor would like to heartily thank its Chief Patron Mr. P. K. Balabantray, Principal, Advisor, members of the editorial board, the authors and other well-wishers for their cooperation and encouragement in bringing out this issue.

**Archana Choudhary**

**Editor**



Odisha has a narrow industrial base, comprising of a number of large, medium and SSIs in steel, aluminium, chrome, power, textile, handicraft and a host of other sectors. The thrust is on agro processing, electronics and software, aluminium industries, gems and jewellerys, automobiles, basic drugs and pharmaceuticals, petrochemicals and export-oriented units. But despite of all these Odisha stands to be a poor state, with low standard of living of the people. Simple presence of natural resources is not a sufficient condition for economic development, the thing that is of importance is its proper utilisation. The conversion of natural resources to national wealth is a process of sustained hard effort and requires a deeply thought out proper planning and mobilization of materials, machines, power and human resources.

### 1.2 Industrial Scenario in Odisha

Prior to independence, industrial activity in Odisha was virtually non-existent, except for the exploitation of iron ore and coal to cater needs of industries in other states and for the railways. Manufacturing activities were limited to small traditional household and village industries serving local needs. However, after independence, some medium and large industries were set up and the pace of industrial progress in Odisha has quickened. Emphasis is being given to ferroalloys, electronics, iron industry, aluminum industry and various agro- based industry. The initial foundation for industrial development in the state was laid with the establishment of a steel plant at Rourkela, an aluminum factory at Hirakud, Ferro manganese plant at Joda and expansion of the existing cement, paper and engineering industries during the Second plan period. In the sixties, the ferrochrome plant at Jajpur Road, cement plant at Bargarh, cables and rerolling plants at Hirakud were established. The decade of 1980s saw a spurt in industrialization through small and medium industries set up through private entrepreneurship, mostly with the assistance from OSFC & IPICOL.

Big industries like NALCO, Paradeep phosphate and coal based plants at Talcher, Kaniha and Banharpal set up in the public sector further strengthened the industrial sectors. It also included the setting up of two sponge Iron plants in Keonjhar district, a refractory in Dhenkanal district and mineral sands separation plants of Indian rare earth Ltd. at Chhatrapur in Ganjam district. Recently the number of companies who have signed Memorandum of Understanding (MOUS) to set up steel plants in the state has gone up to 50, including Posco of South Korea which has agreed to construct a mammoth \$12 billion steel plant near Paradip port. It would be the largest single investment in India's history. Russian major Magnitogorsk Iron and steel company (MMK) plans to set up a 10 MT steel plant in Odisha too. The state is attracting an unprecedented amount of investment in aluminum, coal-based plants, petrochemicals, and information technology as well. In power generation, Reliance Industries (Anil Ambani Group) is putting up three world's largest plant with an investment of US \$13 billion at Hirma in Jharsuguda district. Vedanta Resources' 1.4 million tonne alumina project in Kalahandi district is the largest investment in aluminum. Vedanta has also announced a \$3.2 billion dollar huge private university project on the lines of the Ivy League Universities, which is unprecedented in the history of education in India. The central government has agreed to accord SEZ (Special Economic Zone) status to eight sites in Odisha, among which are Info city at Bhubaneswar and Paradip.

Hence, Odisha appears on the investment map of India with a long list of investment proposal mainly promoted by foreign investors. The majority of the new projects are solely attracted by the rich rejoins. Hence, the state has witnessed an industrial atmosphere in the state.

The industrial structure of Odisha mainly comprises of:-

- (i) The Large and medium industries.
- (ii) Small scale industries.
- (iii) Cottage & Handicraft industries.

### 1.3 Position of Large scale industry in Odisha

Large scale industrialization in Orissa started during the five year plan periods, after the development of infrastructure like, communication, power, irrigation, transport and education. During the Five Year Plans due to continuous efforts by the private entrepreneurs and Govt assistance, a number of large scale industries were setup in the state. Large scale industries refer to those industries which require huge infrastructure, manpower and have influx of capital assets. The term large scale industry is a generic one including various types of industries in its purview. All the heavy industries of India like the Iron and steel industry, aluminum industry, textile, automobile manufacturing industry fall under the large scale arena. However, in recent years due to the IT boom and huge amount of revenue generated by it the IT industries can also be included within jurisdiction of the large scale industrial sector. Moreover, the telecom industries also form an indispensable component of large scale industrial sector of India. Indian economy is heavily dependent on these large industries for its economic growth, generation of foreign currency and for providing job opportunities for millions of Indians. With the setting up of these industries the following benefits have been noted worthy:

- Large industries have been helpful in strengthening physical and social infrastructure like power generation, railway and road network, Ports and airports, higher technical & professional institutes, modern hospitals and schools through prioritization of public investment and through private investment.
- With the development of large industries greater support have been provided to the expert – oriented industries, agro-food processing industries & micro enterprises.
- They have been helpful in generating employment facilities among the people.
- They have also been helpful in the development of trade and earning foreign exchange.
- Large industries have led to ancillarisation of industrial units by creating potential backward linkages.
- They have been also helpful in establishing a proper linkage between the agriculture and industrial sector.
- They have also helped in strengthening the rural economy through the development of agro-based industries, small industries, village and cottage industries etc.
- They have also been helpful in accelerating the economic development of the through increase in the nation's GDP.

Hence, the large scale industries are playing a vital and key role in the core areas of economy of the Country. Orissa being a mineral rich state has witnessed boom with the establishment of several large scale industries like NALCO, Rourkela steel plant, Jindal steel, Vedanta, POSCO etc., during different planning periods.



During the 2011-12, Odisha has over 244 large and medium industries providing employment to over 1, 17,536 people. A number of large investment industrial projects in the sector like steel, aluminium, oil refinery and fertilizers are in the pipeline. Indian Oil Corporation has signed an agreement with the state govt. for setting up an Oil refinery at Paradeep with an investment of over \$ 2.6 billion. Similarly TATA steel has also signed an agreement to establish a steel plant at Duburi with an investment of over \$3.3 billion. These and other project in the steel and aluminium sector would create more than 50,000 direct and indirect jobs. And NALCO being a large industrial unit have made significant contribution for the development of Orissa. A similar study has been made to access the linkage effects created by the project.

#### 1.4 An Overview of Aluminium Industry:

Aluminum has now emerged as the second largest metal to be consumed after steel with a total production capacity of around 40 mn MT. This poor man's silver is replacing steel in a significant manner and reaching the height of applications in several industries including transportation, construction, railways, electrical, automobiles, aviation etc. Aluminium is the third most abundant element in the earth's crust (other two being non-metal; silicon & oxygen) and constitutes 7.3% by mass. It is a versatile metal with several unique properties viz strong, light, ductile, malleable, excellent conductor of heat and electricity, corrosion resistant, recyclable and has high reflectivity and barrier properties and can be easily casted into an infinite variety of shapes. It weighs about one third as much as steel (7480-8000 Kg / cubic meter) or copper (8930 Kg/ cubic meter) .In India, the aluminium industry is ideally structured as all the smelters here source alumina, as the intermediate input, from their own refineries, backed by bauxite mines.

The National Aluminium Co. Ltd.(Nalco) ,Vedanta and the Hindustan Aluminium Co.Ltd (Hindalco) enjoy the benefit of highly cost-effective coal-fired captive power complexes virtually on the pitheads. The other prominent producers are Bharat Aluminum Co. Ltd(Balco).The Indian industry is dominated largely by these three players which together constitute about 80-85% of the production. The table 1 given in the annexure exhibits the capacity and production of the existing aluminium production units in India. The table throws a light on the position of the various aluminium producing units in the country. Amongst all VAL is the leading producer followed by HINDALCO & NALCO. In terms growth rate as compared to previous years VAL has shown a positive growth rate of 5.31%, HINDALCO poses a growth of 7.05% and NALCO has shown a minimal growth of 0.60% in comparison to the other aluminium producers. Thus, aluminium is tapped extensively and increasingly used in a myriad of applications from the humble household utensils to components of aerospace research. Thus, it promises to keep momentum and shines brighter in the near future. A study on the aluminium industry will serve the basis of our objective.

#### 1.5 Industrial Linkages and its impacts:

A LINKAGE is a change or hypothesized change in the performance of one work unit as a result of the change in the performance of another unit. Big industrial units stimulates the growth of manufacturing industries thereby fostering the pace of economic development. A linkage seems to be better where there are domestically owned or state owned enterprises. Industry is a leading sector of development and industrial linkage is said to be established when one industry depends on the output of another industrial unit. Hence, it is a kind of interdependence between the large industry and the smaller one.

Since both the industrial units are closely interlinked to one another, this can cause a problem if one industry has some production problem and ceases down. The car industry can serve as a good e.g. this – each component like engine, spare parts, body, lights etc. are produced by different ancillary units before it goes to the assembly plant. So, if any one of the industrial unit is affected then the entire unit can cease its production. Thus, industrial linkage is a part of a chain from raw materials to finished products, from finished products to service sector and from service sector to research & development.

The goal is to explicate the conditions which linkages can be positively influenced. How can an organisation promote the facilitators and diminish the inhibitors? Once that is understood, the organisation can create the circumstances under which new technology can be introduced and the productivity of organisation increases as the expected gains in individual productivity are realised. The important influences on linkages are likely to be found in the nature of relationships that exist between work units, differences in the stages, structure of work units and differences in the processes that operate on the organisational linkages.

In dealing with the linkages of NALCO we have only dealt with the forward and backward linkages of the unit with other manufacturing industry in Odisha.

#### **1.5.1 Linkages and its classification:**

Any particular investment project may have both:

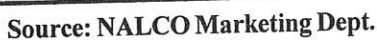
(i) forward linkage and (ii) backward linkage, and our study pertains to these two effects. Forward linkage refers to the provision made by one firm or industry of produced inputs another firm or industry. In other words, forward linkage implies the transaction links from the supplying sector of interest to industries that demand intermediate goods or services. These industries are also known as “downstream” sectors in the flow of goods from extraction through road, processed and final retailed form to consumers. The forward linkage encourages investment in subsequent stages of production. Every activity that does not by its nature caters exclusively to final demands will induce attempts to utilise its output as inputs in some new activities. This is known as output utilisation or forward linkage effect.

The Backward linkage on the contrary, refers to the purchases made by one sector from its suppliers. These are basically the ancillary industries which supply raw materials to the parent unit (viz. NALCO). In other words, they are the transaction links to the buying sector of interest from industries that supply intermediate goods or services. The supplying industries are also known as “upstream” sectors in the flow of goods from extraction through raw, processed and final retailed form to consumers. Moreover, it is an effect in which increased production by a downstream manufacturer provides positive pecuniary externalities to an upstream manufacturer. The backward linkage encourages investment in earlier stages of production. Every non-primary economic activity will induce attempts to supply through domestic-production, the inputs needed in that activity. This is known as input provision, derived demand or backward linkage effects. NALCO, as a parent industry creates some of the forward linked units for its product aluminium and alumina. Lower is the value added by the manufacture industry, higher is the forward linkage and the production of investment goods and vice-versa.<sup>1</sup> In this section we seek to investigate whether the linkages are present and how large is their contribution to Odisha's economic development.

An illustrative list of possible downstream & upstream industries is given in the following figure 1.



### List of possible ancillary and downstream industries of alumina and aluminium



The above exhibit does not provide an exhaustive list and highlights only the major possible ancillary & downstream industries of alumina & aluminium. Regarding ancillarisation various activities have been undertaken by the industry including provision of product and services, repair, maintenance & spare parts, which have been also shown. Special grade alumina is also produced by NALCO through bauxite refining. Therefore, a study of both forward and the backwards units created by NALCO is necessary.

### 1.6 Quantifying linkages:

Let us consider the forward and backward linkage between the two sectors from the point of view of enhancing production in both the sectors from which employment and income generation effects can follow. Most fundamental form of linkage between the linked units and the parent industry can be established through exchange of raw materials or inputs. This inter-industry linkage can be both forward as well as backward. Forward linkage of an industry is established with other industries by selling its output to others to be used as inputs or raw materials. Similarly, backward linkage of an industry with other industries is established through purchase of raw materials from others as inputs.

Therefore, forward linkage of industry  $i$  with industry  $j$  can be defined as the ratio of output sold by  $i$  to  $j$  as a proportion of total output of  $i$ .

Forward linkage of  $i$ th industry =

$$\begin{aligned} FL_i &= \frac{\text{Total intermediate demand for the output of } i\text{th sector}}{\text{Total output of the } i\text{th sector}} \\ &= \frac{\text{Purchases from NALCO}}{\text{Total output of NALCO}} \\ &= \frac{d_{ij}}{Q_j}, \quad i \rightarrow j \end{aligned}$$

In the similar manner backward linkage of industry  $i$  with  $j$  can be defined as the ratio of inputs purchased by  $i$  from  $j$  as a proportion of total output of  $i$ .

Backward linkage of  $i$ th industry =

$$\begin{aligned} BL_i &= \frac{\text{Total demand by } i\text{th sector as input from other sectors}}{\text{Total output of the } i\text{th sector}} \\ &= \frac{\text{Purchases by NALCO}}{\text{Total output of NALCO}} \\ &= \frac{X_{ij}}{Q_j}, \quad i \leftarrow j \end{aligned}$$

Ideally, inter-industry forward and backward linkages can be calculated by utilising the necessary information as per the above formulae from a detailed input-output (I-O) table of the economy. This can provide a detailed insight into the inter-sectoral interdependence. In this case we have limited our self to the calculation of forward linkage coefficient and export coefficient as shown in the table given in the annexure. Table 2 and 3 represents the measures used for the estimation of forward and export coefficient on the basis of available information from the studied units.

The table 2 clearly depicts the total output purchased by other industries from NALCO, thereby calculating the forward linkage coefficient. These units purchase ingots, wire rods, billets, sows, special grades alumina like fused alumina, zeolite etc. from the mother unit and add value to these raw materials,

thereby producing various products like rolled products (aluminium sheets, plates, circles etc), aluminium foils, collapsible tubes, alloy wheels, utensils, furniture etc. The analysis of the table throws a light on how the linkage effects have been posed by calculating the coefficients. And Table 4 throws a light on the measures of export coefficient of NALCO, which has been calculated by dividing the total export turnover by gross turnover of NALCO.

Coming to the forward linkage of the industrial sector in Odisha, we have used the proxy measure i.e the ratio of the value added to the total industrial output over a period of 12 years (2000-2001 to 2011-2012). The ratio values are given in Table 3, Col.4. It is evident that the value of the ratio has been stagnant at around the low value and varies between 0.05 to 0.08. This implies low forward linkage in domestic terms of our industrial sector with the other sectors but as far as exports are concerned the coefficient is significantly high at 0.4 to 0.5 as shown in table 3. This implies that most of the NALCO's output goes for exports thereby earning more foreign exchange rather than focussing on industrial linkages domestically. Thus, NALCO'S role in terms of creating forward linkages is significant but not so appealing to that extent.

### 1.7 Conclusion:

To conclude, there has been remarkable change in the economic status of these linked units due to the emergence of NALCO. But, the possibility of setting of a downstream fabricator viz. Bus body building, sheet fabricator etc. using the output of integrated rolled product units viz. Sheets, plates appears to be minimal because of only one RPU (Rolled Product Unit) i.e. NALCO being market requirements. Similarly, potential for other value-added items like ceiling fans, pressure cooker etc. have not been considered as they are generally made using aluminium scraps and hence in true sense are not downstream entities of primary aluminium i.e. ingots. Accelerating growth of the economy at the present juncture is receiving greater attention. Thus, to devise an appropriate strategy for accelerating the growth rates the paper examined the linkage of growth in terms of the output of the parent industry in establishing its linkage with the manufacturing units.

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ANNEXURE-

Table- 1

Production Capacity and Production of the existing Aluminium Units of India (In MT)

Company	Existing Capacity	Production in FY 2011	Production in FY 2012	Growth rate ( in %)	Schedule 2013
NALCO	4,38,000	4,43,597	4,46,247	0.60	6,60,000
HINDALCO	5,51,500	5,43,670	5,81,985	7.05	12,76,000
BALCO	2,45,000	2,53,137	2,46,579	-2.59	5,70,000
VAL	5,00,000	6,42,249	6,76,380	5.31	17,50,000
<b>TOTAL</b>	<b>17,34,500</b>	<b>18,82,653</b>	<b>19,51,191</b>	<b>3.64</b>	<b>42,56,000</b>

Source: Ministry of Mines, India

Table-2

Measures for forward linkage of Nalco in Odisha(2000-01 to 2011-12)

Year	Purchases from Nalco Rs.(in crores)	Total Output of Nalco Rs.( In crores)	Output Coefficient
2000-01	130.47	2408	0.05
2001-02	154.51	2385	0.06
2002-03	137.71	2739	0.05
2003-04	114.01	3338	0.03
2004-05	206.55	4439	0.05
2005-06	344.00	5324	0.06
2006-07	516.08	6515	0.08
2007-08	485.09	5474	0.08
2008-09	389.36	5531	0.07
2009-10	448.15	5311	0.08
2010-11	461.54	6370	0.07
2011-12	454.87	7180	0.06

Source: Estimates based on data collected from linked units of NALCO

Table -3

Measures for export coefficient of Nalco in Odisha(2000-01 to 2011-12)

Year	Exports Rs.(in crores)	Total Output of Nalco Rs.( In crores)	Export Coefficient
2000-01	1314	2408	0.54
2001-02	1205	2385	0.50
2002-03	1500	2739	0.55
2003-04	1717	3338	0.03
2004-05	2200	4439	0.51
2005-06	2306	5324	0.43
2006-07	2586	6515	0.40
2007-08	2134	5474	0.39
2008-09	2085	5531	0.38
2009-10	2209	5311	0.42
2010-11	2065	6370	0.32
2011-12	2645	7180	0.36

Source: Estimates made on the basis of available information from NALCO

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## INSURANCE IN THE EMERGING MARKETS: Overview & Prospects for Islamic Insurance (Takaful).

Sk. Zakir Hossen\*

Prof. (Dr) Malay Kumar Mohanty\*\*

### ABSTRACT:

The emergence of Islamic insurance (Takaful) has substantiated a paradigm shift in the global financial services industry and this shift, though emanated from the Islamic countries, has today been accorded global popularity.

The idea of having Shariah based insurance system (Takaful) stems from the earnest desire of the followers of Islam to conduct their affairs in day to day life according to the teachings of Islam and within the framework of Islamic Law. Takaful is based on the concept of cooperation, brotherhood and solidarity of the members of the society who voluntarily agree to contribute money to support a common goal of providing mutual financial aid to the members of the group under certain terms and conditions.

Takaful has emerged as a complementary and supportive system of Islamic Banking movement throughout the world. Islamic Insurance (Takaful) like Islamic Banking has become a viable reality. Due to inherent Sharia principles which are universal in character, the Takaful business would be more appealing in the coming years both for the Muslim and non Muslim communities. Most of the Muslim countries having Islamic Banks have established Islamic Insurance companies as necessary complements to Islamic Banking. The growth of Islamic Insurance companies would serve as the vehicle of risk pooling. It will also provide means of investment.

It has been estimated that total Takaful contribution (premium) is approximately 0.05% of total world insurance premium. However, the growth of Takaful industry during last decade had been very impressive. The consumers demand for Shariah compliant products is increasing and a high level of demand for Takaful is being predicted by market observers. The Takaful industry is fast evolving and entering a

stable development phase. It is now right time for the national regulators to provide supportive Takaful laws, rules & guidelines.

**Keywords:-**Islamic Insurance (Takaful), Conventional Insurance, *Poverty alleviation*, *Economic growth*, & Globalization

## 1. INTRODUCTION:

In the developed insurance world, insurers provide a wide range of products that cater for the Different needs of a constantly changing and diversified population. Insurance is widely accepted as an important component to a strong dynamic economy and critical to protecting the individual against the effects of unexpected perils. The lack of access to affordable insurance in emerging countries is one of the reasons for their inability to achieve any sustainable and substantial increase in living standards for the poor. Another sector of society which has for many years not had access to insurance products is the Muslim population. Islamic *Shari'ah* (Law) prohibits the purchase of modern (conventional) insurance and as a result the penetration of insurance in Muslim countries has been negligible, primarily limited to the commercial and elite sectors. However, Muslim jurists have concluded that insurance schemes encompassing the elements of shared responsibility, joint indemnity, common interest and solidarity are acceptable. The fundamental philosophy of Islamic insurance or *Takaful* is therefore the same as that of the cooperative and mutual. While the first *Takaful* Company was set up in 1979, it has only been in the last few years that the industry has experienced rapid growth in Muslim countries. Increasing awareness, globalization, and the spread of Islam across the world will lead to *Takaful* becoming a real and identifiable sector of the world insurance market in the next decade.

Takaful is an alternative form of conventional insurance based on the concept of trusteeship and cooperation inspired by the beliefs of the followers of Islamic teaching. Muslim societies in different parts of the world are now practising Takaful scheme as their own way of sharing financial responsibilities to assist each other. They have invented an Islamic way of mutual assistance to deal with uncertainties of life.

The following paper analyzes the differences in *Takaful* and conventional insurance, and the Ideology behind the *Takaful* scheme. It also looks at how cooperative and mutual insurance companies operating in countries with large Muslim populations can take advantage of the similarities between their operations and those deemed acceptable under Islam. As well as providing a potential business opportunity to penetrate an untapped market, providing *Takaful* products will enable the individual to have the choice and access to insurance products which conforms to his/her religious beliefs.

## 2. OBJECTIVES:

- To analyze the difference between Takaful & Conventional Insurance



- To analyze how Takaful (Islamic insurance) facilitating business activity and economic growth of nation
- To analyze the challenges & future prospects of Takaful

### 3. METHODOLOGY:

This work is based on secondary data. Secondary data has been collected from several sources. Relevant literature has been gathered from a number of libraries. Extensive data has been collected through websites, and articles.

### 4. ISLAMIC INSURANCE (TAKAFUL):

*Takaful* is an Arabic word meaning “guaranteeing each other” or joint guarantee.

The *al-Tabarru'* (Donation) system is the main core of the *Takaful* system making it free from uncertainty and gambling. *Al-Tabarru'* means “donation; gift; contribution.” Each participant that needs protection must be present with the sincere intention to donate to other participants faced with difficulties. Therefore, Islamic insurance exists where each participant contributes into a fund that is used to support one another with each participant contributing sufficient amounts to cover expected claims. The objective of *Takaful* is to pay a defined loss from a defined fund.

### 5. THE PRINCIPLES OF TAKAFUL INSURANCE ARE AS FOLLOWS:

- Policyholders cooperate among themselves for their common good.
- Every policyholder pays his subscription to help those that need assistance.
- Losses are divided and liabilities spread according to the community pooling system.
- Uncertainty is eliminated in respect of subscription and compensation.
- It does not derive advantage at the cost of others

### 6. BASIS OF TAKAFUL:

“... a system based on solidarity, peace of mind and mutual protection which provides mutual financial and other forms of aid to Members {of the group} in case of specific need, whereby Members mutually agree to contribute monies to support this common goal.” [O. Fisher]

“The basic fundamentals underlying the Takaful concept are very similar to cooperative and mutual principles, to the extent that the co-operative and mutual model is one that is accepted under Islamic Law.”

The basis of the *Takaful* System is not to profit but to uphold the principle of “bear ye one another’s burden.” Therefore, the characteristic feature of Islamic insurance is that it is not based on profit making

motive self-help through cooperation. Mutual assistance amongst members of a tribe was not originally a commercial transaction and contained no profit or gain at the expense of others. Rather, it evolved as a social institution: to mitigate the burden of an individual by dividing it among his fellow members (group persons) or tribe.

*"Indeed, the basic difference between the Islamic and conventional conceptions of insurance is one of perspective, not economics. From a conventional perspective, insurance appears as set of bilateral contracts that transfer risk for the benefit of the individuals who choose to make that contract. From an Islamic perspective, however, insurance appears as an institution that reduces or eliminates risk for the benefit of social group. Importantly, the institutions that result from either the conventional or Islamic conception can also be described within the framework of the other: an Islamic insurance company is an institution that individuals use to shed risk, just as an conventional company is a way that a group shares risk".*

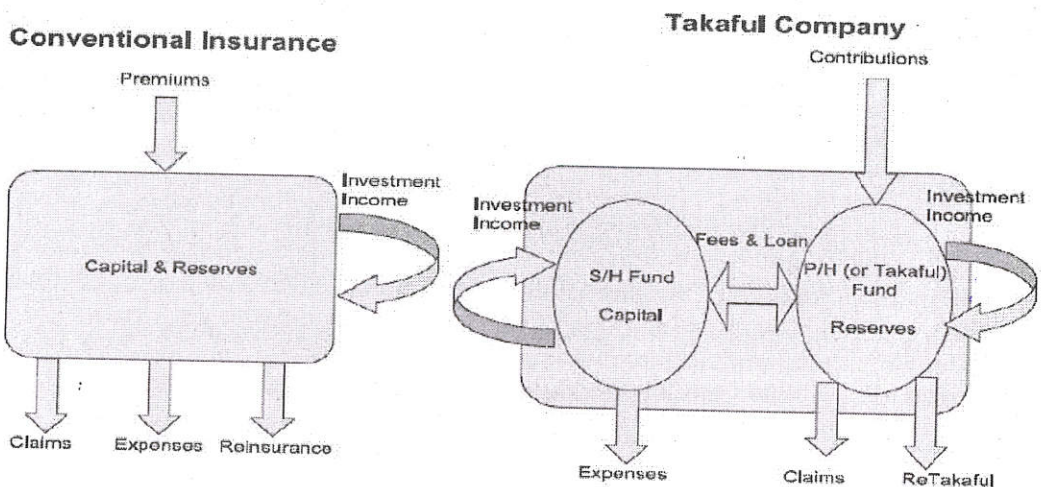


Figure 1. Khan (2008, p. 7) graphical illustration of the difference between takaful and the conventional western model.

## 7. TAKAFULIN PRACTICE:

In 1979, the Islamic concept of *Takaful* was finally actualised through the opening of the first *Takaful* Company in Sudan. Theoretically, *Takaful* is perceived as cooperative insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is not profits but to uphold the principle of "bear ye one another's burden." The role of this practice indicates that the policyholders are in fact the managers of the fund and the ones in ultimate control.

**8. DEVELOPMENT OF TAKAFUL BUSINESS:**

The Takaful business has proved its viability in a period of only two decades. It has been growing at the rate of 10-20% p.a. compared to the global average growth of insurance 5% p.a. A large number of Takaful Companies exist in the Middle East, Far East, and even in some non-Islamic countries. There are over 60 companies offering Takaful services (including Windows- 5%) in 23 countries around the world. These countries are: Malaysia, Singapore, Indonesia, Sri Lanka, Bangladesh, Turkey, Luxembourg, Senegal, Tunisia, Bahrain, Brunei, Kuwait, Jordan, Qatar, UAE, Egypt, Saudi Arabia, Sudan, Nigeria and Iran; Malaysia has developed *Retakaful* business as well. Takaful products are available to meet the needs of all sectors of the economy, both at individual as well as corporate levels, to cater for short and long term financial needs of various groups of the society.

**Table 1: Takaful Operators Registered under the Takaful Act 1984**

	Takaful Operator in Malaysia	Shareholders / Parent Company	Year of Incorporation
1	CIMB Aviva Takaful Berhad	CIMB Group and Aviva plc	2006
2	Etiqa Takaful Sdn Bhd	Maybank Fortis	2007
3	Hong Leong Tokio Marine Takaful Berhad	- Hong Leong Group -Tokio Marine & Nichido Fire Insurance Co., Ltd	2006
4	HSBC Amanah Takaful Malaysia Sdn Bhd	- HSBC Insurance (Asia Pacific) - Jerneh Asia Berhad - Employees Provident Board of Malaysia (EPF)	2006
5	MAA Takaful Berhad	MAA Holdings Bhd Solidarity	2006
6	Prudential BSN Malaysia Berhad	- Prudential plc and BSN	2006
7	Syarikat Takaful Malaysia Berhad	BIMB Holdings Bhd	1985
8	Takaful Ikhlas Sdn Bhd	MNRB Holdings Bhd	2003

*Source: Takaful Statistics, Central Bank of Malaysia, 2006*



Table 2: Contribution and Market Share, 2004 – 2006

Family Takaful Plans	Contribution (RM million)			Market Share (%)		
	2004	2005	2006	2004	2005	2006
Ordinary Family	592.4	653.1	1,055.0	98.1	90.0	83.3
Endowment	104.9	143.0	137.7	17.4	19.7	10.9
Temporary	407.3	418.2	772.9	67.5	57.6	61.0
Medical & Health	57.7	63.2	115.4	9.5	8.7	9.1
Others	22.5	28.8	29.1	3.7	4.0	2.3
Annuity	1.9	2.2	1.1	0.3	0.3	0.1
Investment-linked	9.4	70.1	210.4	1.6	9.7	16.6
Total	603.7	725.5	1,266.6	100	100	100

Source: Takaful Statistics, Central Bank of Malaysia, 2006

#### 9. ISLAMIC BANKING AND ISLAMIC INSURANCE:

Insurance in modern trade and commerce provides safety for the people as security against accidents and calamities. Likewise, modern trade and commerce cannot be conceived without involvement of insurance and banking. The conventional systems of insurance and banking, which are based on interest, cannot be adopted by Muslims as a *Shari'ah*-compatible system. There is an intrinsic relationship between Islamic banking and Islamic insurance. The progress of Islamic insurance depends on a healthy growth of Islamic banking. Islamic banks have already attained considerable success in the banking sector. It is only the beginning of *takaful* and it is likely to flourish in the insurance sector. To attain the desired level by both the Islamic bank and Islamic insurance, a strong relationship needs to be built up between the Islamic bank and Islamic insurance throughout the world. Banking and insurance without interest is feasible, viable, competitive, and sustainable in the face of competition from the conventional interest-based system. The current century is going to be the century of Islamic banking and insurance for the benefit of the people at large, coupled with equity and justice for all. *Takaful*, like Islamic banking, has become a viable reality. *Takaful* is a financially viable and competitive alternative insurance for Muslim countries. Islamic banking cannot be fully *Shari'ah*-based unless there are *Takafuls* to take their insurance business.

#### 10. ROLE OF TAKAFUL IN ISLAMIC ECONOMIC SYSTEM:

*Takaful* is a service to Muslim Ummah (community) as a welfare scheme. The objective of Islamic Economy is to create an exploitation free society. The *Takaful* system, which has been working for the welfare of the mankind is not in contradiction with Islam. The objective of Islamic Economic system is the promotion of welfare of people which lies in safeguarding their faith, their life, their posterity and

their property. By ensuring and safeguarding these elements of the people, Takaful serves public interest and, therefore, can play the most important role.

An exploitation free society as Islam envisaged has provisions for adequate capital formation. The Prophet of Islam disapproved begging and encouraged capital formation. He advised a poor companion to sell all his belongings for purchasing an axe for collecting firewood and sell those in the market. The Takaful system will facilitate capital formation of individual households. This will motivate every individual for savings under Family Takaful (Islamic Life Insurance) and the collective surplus funds will be invested in the capital market. This will facilitate further utilization of resource and greater employments.

Understanding fundamental principles of Islamic Economic System is necessary in order to have a better understanding of the role of Takaful and its suitability in the Islamic Economy. For example, right of private ownership accorded by Islam is not absolute and unconditional. The ownership is a kind of trust only. An individual may privately own and manage any kind of wealth, but he cannot do with them whatever he likes. He is to regulate the uses of wealth as per the Shariah Law. An individual can make joint investment to earn profit from his investment. Takaful is a means whereby investments of surplus funds are made by the Operators and profits are distributed to the Participants i.e. to the owners of the capital.

Another fundamental principle of the economic system of Islam is that it stands for equitable distribution of wealth. Islam encourages people to be selfless helpers for one another by arousing in them feelings of sympathy. Takaful is a system where people are encouraged to contribute money for mutual help in times of need. Thus Takaful comes in for help of distressed fellow by means of mutual cooperation and joint guarantee.

#### 11. TAKAFUL AND POVERTY ALLEVIATION:

"Takaful is the second most important social institution in the Islamic community to counter poverty and deprivation". (Omar Fisher. 1999). "Insurance in Islam has existed since the early century of the Islamic era when Muslims Arabs expanding trade into Asia mutually agreed to contribute to a fund to cover mishaps or robberies along the numerous sea voyages. Muslims jurists concluded that insurance in Islam should be based on principal of mutuality and cooperation and encompasses the element of shared responsibility joint identity, common interest and solidarity." (Yusuf. 1999).

According to M Billah. "Insurance policy contributes towards producing a society with self reliance. Such an insurance policy materially protects the insured from unexpected tragedy, loss or damage". He added "An Takaful policy contributed towards the reduction of poverty rates in the society while ensuring a comfortable life for the poor. It is universal nature that anyone might become poor resulting from any concurrence of material loss or damage. Such material poverty could be solved should one have an insurance policy, insuring him/her against such damage or loss. Insurance policy, hence, guarantees the insured a comfortable life or material security against unexpected occurrence of loss or risk."

#### 12. THE SOCIO-ECONOMIC BENEFITS OF TAKAFUL:

"An insurance policy is based on the principles of *al-Mudarabah* financing technique whereby the parties involved share the profits with an agreed portion and avoiding the consumption of interest (*Riba*). An interest-based transaction on the other hand, always leads to unfairness in the commercial society." (Billah. M. *Development & Applications of Islamic Insurance (Takaful)* ) Takaful intends to



provide the Muslim community and other interested parties with a four in one advantage as categorically spelt out as follows:- Yasin (1995)

### **13. MOBILISATION OF SAVINGS:**

The birth of Takaful companies is complimentary to the establishment of Islamic banks. It adds to the colour of Islamic finance by giving more alternatives to the Muslims to save their money in a safe and more systematic manner. Previously, Muslims in Malaysia used to park their money under the mattress, in the pillows, even in earthen jars and buried them for safety so as to avoid interest. With the existence of Takaful, a Takaful company can mobilize the savings in a safe and profitable manner. As such, Takaful intends to advocate the custom of regular savings for a fixed period with a view to creating a kind of retirement or long-term contingency fund. In sum, a Takaful company plays the role as savings institution and a custodian of money deposited in its custody to serve the future interest of the Muslim community (Ummah). Yasin (1995)

### **14. EMERGING OPPORTUNITIES IN ISLAMIC INSURANCE:**

#### ***14.1 Contrasts and Synergies:***

In the Wakalah model, insurance providers are assured of a fixed share of contributions as revenue while the Mudharabah model encourages efficient underwriting and investments for generating surplus funds, of which insurers receive a share. There also exists a hybrid model which combines the principles of both Al-Mudharabah and Al-Wakalah models. Here the agent who is the Takaful intermediary receives both a predetermined share of the contributions paid by policy holders in the form of Wakalah fees as well as a share of the profits generated from investment activities of the Takaful fund. Under the Waqf model, agents make an initial contribution to a Waqf fund. An additional contribution collected from policy holders of the fund helps meet contingencies. Here also the underwriting agent receives a Wakalah fee and the surplus funds remaining after settlement of all outstanding claims, are distributed to the policy holders. Implementation models of Takaful vary across companies and markets; the primary reason being that Sharia provides a guideline for the way the insurance business is conducted as opposed to strictures. The interpretation of the Sharia may vary slightly depending on the views and beliefs of those comprising the Sharia Supervisory Board.

#### ***14.2 Re-Takaful or Islamic Reinsurance Model:***

Reinsurance of the Takaful business on Islamic principles is known as Retakaful. Due to the acute shortage of Retakaful insurers in the market, for now, Sharia scholars allow existing operators to reinsure using conventional principles. Takaful companies also actively promote co-insurance with their competitors to supplement their underwriting capacity. Additionally, large, conventional reinsurance companies in Islamic countries accept retrocession.

#### ***14.3 Current Trends and Future Prospects:***

With the expanding demographics of Islamic countries and that of the Islamic population globally, the prospect of Islamic Insurance models looks promising. During 2007-2008, the emerging markets contributed close to 28% of the global economic activities. The Islamic countries on their own accounted for 23% of the emerging market's GDP and 11% of the premiums written in these economies (source: Sigma No 5/2008, Swiss Re). The amount of Takaful premiums from emerging markets was USD 1.7 billion, with Malaysia and Saudi Arabia showing the highest growth rates. However, other insurers operating on hybrid models with their base in the Sharia accounted for another USD 4 billion in premiums.



During the same period, the ratio of written premiums to GDP in Islamic countries is 1.3% of the GDP as compared to 2.8% for emerging markets as a whole. Therefore, the potential for Takaful operators to grow in these economies is tremendous. With the improved standards of living and increasing awareness of Takaful, the market is expected to see steady growth in per capita spend on Takaful insurance premiums and also in terms of market share in comparison with conventional insurance products.

#### **14.4 Product Portfolio:**

A large portfolio of Takaful products is being offered in the market by Takaful companies and is categorized as

**14.4.1 Motor** – Third-party liability & comprehensive motor insurance for both individual and commercial markets. Other ancillary services being offered include road, personal accident insurance, among others.

**14.4.2 Marine** -Marine cargo, hull, liabilities and freight forwarders .

**14.4.3 Engineering** - Erection all risks, contractors' all risks, plant and machinery, loss of profits and deterioration of stock

**14.4.4 Property & Casualty** - Fire and allied perils, property all risks, public liability, product liability, professional indemnity, medical malpractice .

**14.4.5 Miscellaneous** – Money insurance, fidelity guarantee, workmen's compensation, employer's liability, traveler's insurance, personal accident .

Specialty lines - Including bankers' blanket bond, jewelers' block, directors and officers insurance

**14.4.6 Family Takaful**

**Life & Health** – Includes group family Takaful (group life), personal accident & sickness benefits, group health insurance, medical & travel assistance benefits

#### **15. STRATEGIC ISSUES AND CHALLENGES:**

With projected growth as described in the previous sections, the Takaful industry will experience much change. As with all new product offerings, success will depend on several factors, both internal and external. Highlighted below are a number of strategic issues and challenges that providers will contend with as the industry expands.

##### **15.1 Standardization:**

The global Takaful industry, currently, includes different operational models, accounting standards and regulatory regimes. Bahrain, Malaysia and Pakistan are currently the only markets to have issued specific Takaful laws or regulations. However, in spite of the laudable efforts by AAOIFI, the industry is still wanting in building a set of global regulatory standards that will be binding on all operators, with certain localizations.

##### **15.2 Distribution Challenges:**

The Takaful industry is dominated by local operators. New entrants should create synergies that can be used to leverage existing distribution channels, bank Takaful and strategic alliances across geographies.

This will also enable the operators to increase premium volumes to improve profitability; a key factor in surviving the 'start-up' years.

### ***15.3 Developing Innovative Products:***

Developing attractive and competitive products that meet diverse customer needs will be a major challenge for Takaful producers. Though Takaful providers cater to a very specific and presently unsatisfied market, they still need to create product offerings that are as sophisticated and innovative as their conventional competitors. Their ability to design products that exceed the standards presently set by conventional insurers will be the ultimate test for Takaful as a product.

### ***15.4 Improving Marketing and Branding Tactics:***

The present brand value of Takaful is relatively limited particularly in non-Islamic countries. Analysts have suggested that Takaful has enormous potential for Islamic and non-Islamic populations, offering an 'ethical' insurance alternative. Experts also propose that Takaful can potentially be a useful mechanism for poverty alleviation. The low penetration of insurance in many Islamic countries where Takaful operators are expected to be most successful indicates that Takaful operators have yet to make significant progress towards this end.

### ***15.5 Raising the Standards in Customer Service:***

As the industry grows and becomes more competitive, building customer service skills and developing best practices will become increasingly important. At present, general customer service standards are average among Takaful providers, relative to their conventional counterparts.

## **16. CHALLENGES:**

### ***16.1 Shariah Compliance:***

Shariah compliance of financial products is essential to ensure credibility of the products and institutions. The number of Muslim investors are increasing. They are becoming more sophisticated and will demand more from their bankers. Investors will not only look at investment performance or Shariah compatibility alone. They will demand *both* Shariah compliance *and* good returns.

In fact, using the label 'Islamic' or 'Shariah Compliant' would suggest that the product is already adhering to the principles of Shariah. Any violation of this rule would mean a loss of confidence in the product, firm or even the system itself. Investors will vote with their feet. Therefore, it is in the industry's interest to ensure that the Shariah supervision systems in the Islamic financial institutions are managed well.

### ***16.2 New Product Development:***

Aside from Shariah compliance, another factor that is crucial to the development of the industry is the constant innovation and development of new products. Financial markets are increasing in sophistication; the environment is constantly changing and competition is increasing. Muslim investors need a range of products to meet their desire for diversification of their investments, based on their unique individual needs.

### 16.3 Current Improvements:

There are some very important issues that face the Islamic Finance industry. And two of the more crucial ones, as we have seen, are regarding Shariah compliance and new product development. Nevertheless, it is heartening to note that much effort is being made to address these challenges.

For example, institutions such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have made great progress in developing standards, including on Shariah compliance

### 16.4 Developing Talents:

To address these challenges and to achieve further improvements, we cannot run away from the fact that we need talented people. Shariah scholars, in particular, have to play a greater role. Shariah Boards may have to operate differently in order to facilitate the innovation process, without compromising Islamic principles. They have to be involved in the new product development process at the onset. They have to integrate Shariah considerations early and fully in any development or strategy. They have to provide constant supervision and work in close partnership with management to ensure innovative yet shariah compliant products.

They have to understand customers' needs, safeguard their interests and represent them to the management of the organizations. They have to develop Shariah compliance systems that adhere to the standards developed by AAOIFI and IFSB. And all of these procedures will have to be transparent in order to avoid problems of information asymmetry and to gain the trust of potential investors. Ultimately, both customers and Islamic financial institutions benefit. Investors will have a range of products to choose from. Institutions will gain greater credibility and an increase in potential customers.

## 17. TAKAFUL AND THE GLOBAL MARKET:

*Takaful* is the fastest-growing area of the world insurance market. It is growing at 20 to 25% *per annum*, compared to the world average growth of conventional insurance at 5 to 5% *per annum*. The validity of this growth was made possible in the demand and the prospects of potential rewards both for the customers and entrepreneurs of Islamic insurance. In a market place, the attraction of *Takaful* business may be ascribed to its connection with the Islamic *Shari'ah* as well as its being a better and more just system. This aspect should be attractive to everyone, irrespective of any religious basis upon which the system stands. *Takaful* business has an explicit ethical structure which can be marketed to both Muslims and non-Muslims. The dramatic rise in the demand for *Takaful* insurance is due to this ethical nature of the product. It bears stressing once more, as has been done repeatedly throughout these pages, that on the basis of its ethical foundation, *Takaful* ought to be attractive to both Muslims and non-Muslims. The *Takaful* industry is, however, small in comparison to its conventional insurance counterpart. This market, therefore, needs to gain worldwide brand recognition.

## 18. FINDINGS:

- Certain elements of conventional (modern) insurance are not permissible under Islamic *Shari'ah* (Law).
- That investment from the *Takaful* schemes can only be made in Islamic compliant products and excludes fixed interest bearing instruments



- The principles and objectives of *Takaful* (Islamic Insurance) are in line with the concept of cooperative and mutual insurance towards economic growth.
- The *Takaful* movement is rapidly growing in Muslim countries.
- *Takaful* is the fastest growing areas of world insurance market.

#### 19. CONCLUSION:

One of the greatest challenges - the misconception that *Takaful* is for Muslims only. Due to its explicit ethical structure, *Takaful* can be marketed for both Muslims and non-Muslims. In multiracial Malaysia, for example, *Takaful* products have attracted even the non-Muslim communities. The belief that *Takaful* is only for Muslims has hopefully been refuted. This is, however, not enough to cultivate a culture of awareness for *Takaful* products. Although *Takaful* products are faced with challenges such as immature banking infrastructure, awareness can be cultivated by offering a wider range of *Takaful* products as an alternative to those offered in the conventional market. The strength of *Takaful* products to announce their awareness lies in its ethical structure. The ethical structure of *Takaful* serves as an offshoot of the principles of fairness and the sharing of each other's burden. This will extend protection to the less fortunate members of the community. On the basis of this common humanity, *Takaful* products stand a chance to be accepted by both Muslims and non-Muslims, despite the obvious religious and cultural differences. It seems probable that *Takaful* companies will attract new clients from the existing conventional insurance franchises. *Takaful* is being practiced now as an alternative to the conventional insurance system.

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# CONSUMER RESPONSE FOR LIFE INSURANCE PRODUCT IN RURAL AREAS: A STUDY IN ORISSA

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"Risk is uncertainty and uncertainty is one of the fundamental facts of life." – Frank H. Knight.

## Introduction

Insurance which is termed as a risk reducing device is crafted socially in order to protect the economic value of asset or life. "Life Insurance is a contract for payment of a sum of money to the person assured on the happening of the event insured by the contract" (Insurance and Risk Management; Gupta, P.K.). Low income vulnerable groups living in India are the major stakeholder for life Insurance. Their culture, need, life style, attitude and behaviour are reflected in their motive to buy an insurance policy. Their literacy level, risk ascertainment and aspiration play an important role while deciding to buy a policy. Similarly company's offerings, service features, product range etc allure a common customer towards an insurance policy. Again urban and rural customers differ in psychographic as well as in demographic fronts. Many previous studies indicate that the service provided by insurance companies in rural area is inadequate. Products available are not customized which discourages potential customers. Rural market is a potential market for insurance. After the entry of many private players in the market, the govt. company called LIC of India is facing severe competition. In a competitive and growing market and under peculiar buying behaviour pattern, the insurance provider has to design service features and service quality appropriately which should focus both customer characteristic as well as customer response behaviour. This study will aim towards an integrated approach having both people oriented and product oriented.

Insurance is a Rs. 400 billion business in India and together with banking services adds about 7% to India's GDP (Pandiya and Srivastav, 2007). Insurance is an important sector generating long term fund for Government through which it fulfils the long term developmental obligation to the people. At the same time it covers the risk of the investor in case of any loss or damage.

In India, LIC was established by an Act of the Parliament (LIC Act, 1956) as a part of nationalization move of Government of India. Subsequently several Committee on reforms were set up to regulate the insurance activity. All these Committee recommended for liberalization and entry of private sector into insurance business. Finally, Indian Parliament passed an Insurance Regulatory Development Act (IRDA) in 1993. The main objective of this act was to monitor and control the insurance industry. After this, the floodgate had opened and many private insurance companies entered into Indian market. In life insurance business, private companies entered as competitor to LIC are: HDFC Standard Life, Birla Sun Life, SBI Life, ICICI Prudential Life, Met Life etc. IRDA has so far granted registration to 14 Nos. private companies.



LIC has more than 2000 branches covering both urban and rural India. Life insurance policy sales crossing over 220 million, the company is an epitome of services. It introduced internet services and today one can view, examine, compare, subscribe and pay on line.

LIC penetrated into rural India and has become a common name in rural area. Its growth rate in rural business is 18%. Since rural market is still untapped, many private companies have shown interest to enter into rural India. They have entered with similar product feature as of LIC. Salient features of some of the life insurance products offered in rural area by different institutions are given hereunder.

***LIC's Jeevan Madhur:***

No medical examination, saving related life insurance plan, age eligibility: 18-60 yrs, minimum and maximum limit of sum assured: Rs. 5000/- to Rs. 30,000/-, mode; weekly, fortnightly and other mode, minimum premium ; Rs. 25 per week, term-5-15 yrs.

***HDFC's Bima Bachat Yojana:***

Low premium life protection plan, one time premium, term-5yrs, premium amount Rs. 100/-, benefits on death before maturity, minimum amount- Rs. 1000/-.

In Super Bachat Yojana people save on long term basis and benefit of life protection is there.

***SBI's Grameen Super Suraksha & Grameen Shakti:***

Provides life cover and low cost to group of economically weaker section, low cost group term insurance plan for SHG group.

***Tata AIG's Navkalyan Yojana:***

Five years Micro Insurance Protection Plan for whole family, life protection benefit without maturity benefit, additional option: accident death benefit.

Sampooorn Bima Yojana provides 15 years Micro Insurance Plan providing benefit payment at the beginning of the policy term.

***Birla Sunlife Bima Kavach Yojana :***

Single premium policy for rural unprivileged people.

LIC launched its innovative "Bima Gram Yojana" where it pays back 25% premium collected from the village or Rs. 25,000/- whichever is less for undertaking village development work. Village population should be within 1000 to 5000 and no. of policies acquired in a single year should be at least 100 nos. This is a customer friendly approach by LIC to face the challenge from competitor companies.

***LIC's Jeevan Mangal:***

The Life insurance Company of India launched it's second micro-insurance product 'Jeeban Mangal (first being Jeeban Madhur) on 11<sup>th</sup> September 2009 with customized offering to cater the distinct need of the most vulnerable low income sections of Indian population. It is a term assurance plan with return of premium on maturity providing for a sum assured (risk cover) ranging from minimum Rs 10,000 to Rs 50,000 with an optional accident benefit rider. Flexible modes of premium payment have been provided ranging from weekly, fortnightly, monthly, quarterly, half yearly, annually and a single premium payment.

***Relevance of the study:***

Rural India is growing. Rural sector is a potential market as urban market is gradually being saturated. Many big companies have put their steps in rural market. HUL has 50% market share from rural market and is growing at a faster rate than the urban market. Paradoxically, rural consumer's profile and rural-consumer's decision making process is complex. Rural market is having some basic problems like lack of infrastructure, lack of communication facilities, vastness and uneven spread etc. Similarly literacy level, per capita income, consumption and investment patterns are different in rural area. Rural consumers take decision for any investment basing on these factors. Need and appropriateness of product, suitability of product features, customizing product, easiness in product acquisition etc. are considered by a consumer before taking purchase decision. Product performance along with quality service features decides the satisfaction level of the consumer. Product's image, personality and value give psychological satisfaction to the consumer. Since rural market is complex, all these parameters are to be studied. Some previous researches are based on specific aspect, and not include all these parameters. This study will focus on customer's profile, product features & quality service features and brand features to find out the effect of each parameter in the mind of rural consumer to take a decision. This will be a behavioral study of consumers in rural area and will be an empirical one.

***Research objective:*** This study will explore various factors of consumer decision variable, product characteristic variable and service performance variable in the light of consumer decision making process. Some key objectives of this study will be as under.

- To find out demographic and psychographic variables which affect customer's buying process for life insurance product.
- To find out product features and characteristics which influence the customers to acquire or retain it.
- To find out service performances which satisfy customers to adopt it.
- To find out the impact of brand parameters to buy insurance product from LIC.

***Literature Review***

***Gupta Santosh Kumar and Ranjan Rajib*** (2008) in their study "Rural insurance market and opportunity to tap the potential" observed that 65% of rural people are ready to buy insurance product if they would be served with low premium policy and adequate information about it. They pointed out that spreading awareness and educating for insurance product in rural area is a challenge. Rural consumers also need appropriate insurance product as appropriate to them.

***Bodia B.S. and Verma Susama Rani*** in their article "Life insurance policies in rural area: understanding buyer behavior" (2007) concluded that LIC has got maximum (93%) market share and rural people have less faith on private companies. They also pointed out that women segment is still untapped in rural areas.

*Ganguli, S.* in his article "Drivers of customer satisfaction in the Indian cellular services market" (June, 2008) said that competitiveness is the first factor for acquiring customer's satisfaction and next comes reliability and convenience of service.

*S. Pandiya, S and Srivastav K.* in their study "The scope of private insurance companies, : A case study of Kanpur" (Jan, 2007) said that LIC has become a generic name for life insurance and because of it's trust, reliability and vastness, it is accessible to all sections of people. People go for a life insurance policy for reasons like obligatory, tax planning, risk covering, regular income etc. Products should be tailored accordingly for different segment of people.

*Pahuja, A and Verma* in their article "Customer relationship management : need of the hour" (Jan 2008) said that segmentation is based on customer needs, preferences, behaviour and business potential, which provides the basis for resource allocation, decision in marketing, sales and service. They also said that CRM is an integrated effort to establish, maintain and grow the relationship continuously leading to mutual exchange and fulfillment of promises over a period of time.

*Jayasimha, K.R.* et al in their article "Consequences of service failure: a Survey of literature" (March, 2007) observed that since human being are not completely rational, suitable guidelines developed by companies can influence the individual behavior. These guidelines are often termed as operating procedures which dictates how a particular activity should be done thereby minimizing the variance at individual level.

#### Methodology:

An empirical study was designed on the basis of primary survey conducted in Puri district of Orissa, a coastal district in eastern India. Information was collected from 150 respondents from six different blocks with the help of a structured schedule. Collected data were processed and findings were recorded.

#### Limitations:

The study was conducted with utmost sincerity to obtain utmost accuracy and transparency. Still then some gap is felt which was uncontrollable to overcome.

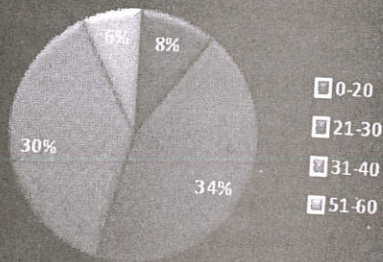
1. The sample size was only 150 and was distributed over a limited geographical region.
2. Rural people are generally indifferent to such type of survey or research. They are usually not capable of feeling the insight of research and hence throw little light to it.
3. Collecting information from competitors of LIC and even from LIC was a difficult task. Every institution was very careful to pass on information and maintain secrecy to it.



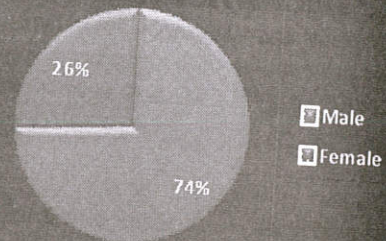
### Data analysis and findings

Analysis of data is done and key findings are given hereunder.

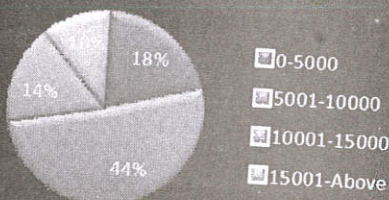
#### AGE



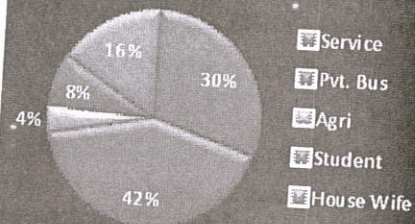
#### GENDER



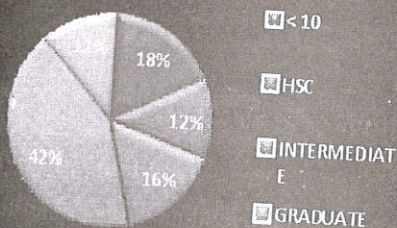
#### INCOME



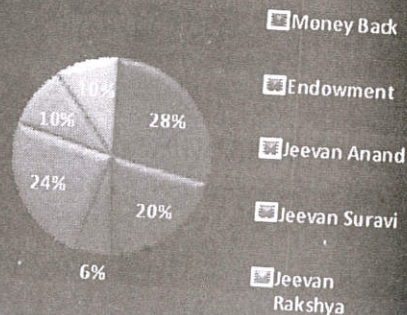
#### OCCUPATION



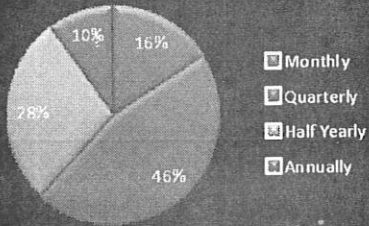
#### EDUCATION



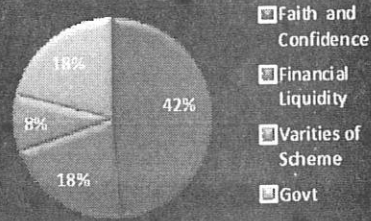
#### POLICY



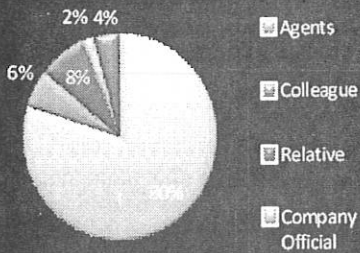
### PREMIUM



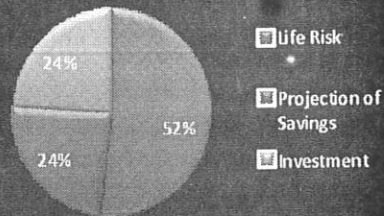
### Reason For Life Insurance



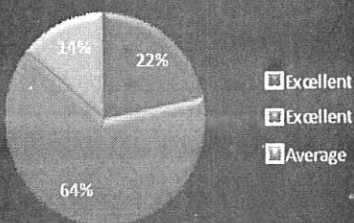
### Information's



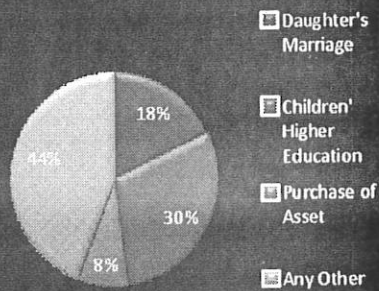
### Purpose



### Opinion About Life Insurance



### FUTURE PLANNING



1. Demographic profile of rural life insurance consumer clearly indicates that people having 21 to 40 years of age (64%) and having family are interested for LIC product. They are usually male (74%) majority being educated (42%) and either service holder (30%) or small business (42%) with monthly income between Rs 5000 to Rs10000/.
2. Out of six different types of LIC products it is seen that rural people are basically interested for Money back, Endowment and Jeevan Suravi scheme. All these schemes are basically medium term small investments which provide a substantial amount at a time in future.
3. Rural people lack liquidity and hence opt for short term premium deposit. About 90% people opt for monthly, quarterly and half yearly premium deposits.
4. Alternate saving in rural area is fixed deposit (26%).
5. Rural people prefer to LIC due to their faith and confidence on LIC because of their long association.
6. Agents appointed by LIC are the prime source of providing information (80%) as well as selling policies to the people (92%). LIC has become accessible to people through agent network.
7. It was found that rural people are risk averse and their security need is very high. They buy LIC policies mainly to cover their life risk (52%). They also plan their future (daughter's marriage, children's education) investment in addition to life coverage.
8. Overall opinion about LIC on the basis of various product characteristics and its service performance is reported very good and excellent by 86% of respondent.

### Interpretation

Above analysis reveal that risk adverse rural people take the judgment of purchasing a policy based on various utilities. Service or business class people are front runners as they afford for this. Usually the male member of the family takes final decision on purchase. Hence **customer profile** plays important role in decision making before purchase of LIC product.

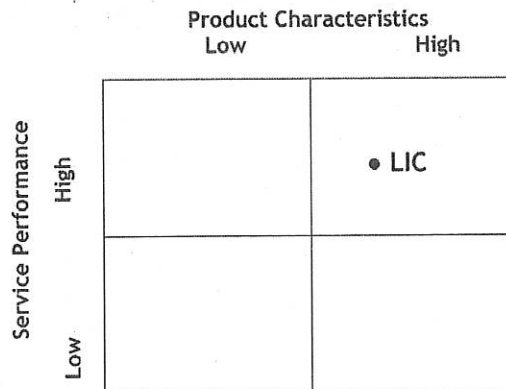
Most appropriate life schemes are chosen by customers with easy premium payment term. Medium duration schemes are mostly chosen keeping in view of future financial requirements. They plan it in advance and choose need based insurance policy. Hence **product features** provides a competitive edge and differentiates it from others.

Rural people get dual benefit of life coverage and getting bulk amount at the time of need. They get accessibility through the Agents who provide all sorts of support and services. This single window concept of services is appreciated by the customer. Customer has lot of faith and confidence on LIC in fulfilling commitments and settling the claims promptly. Hence **quality service feature** of LIC plays vital role in repeat buying as well as communicating good word of mouth.

LIC has a distinct brand identity with rural customer. Past association with the company as well as the faith and confidence of the customer created an emotional attachment which is cemented in their mind. These **brand loyal** customers are opted for repeat purchase of product of same company (50%).

Taking above four factors and putting these into perceptual mapping of customer we can get the following model. Here product characteristics take care of product features and customers characteristics. Similarly service performance takes care of both quality service features and brand features. Overall perception of people lies in High-High quadrant (64%).





### Suggestion

**LIC should maintain the service quality and provide a portfolio of need based product offerings. At the same time it should build its brand strongly to resist competition.**

### Scope for further study

1. Comparative study of LIC with other companies can be conducted and their relative position in the perceptual map can be plotted to have a comparative view.
2. Further statistical analysis can be made to assess correlation between various consumer decision factors.

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## Psychological drivers of Odia movie goers – an Exploratory study

Rabinarayan Patnaik \*

Sanjay Kumar Jena \*\*

### Abstract

The study of film industry of Odisha will surely bring home Odia people into a single platform. A well known proverb says that “a picture reveals thousand words”. It also says “what is seen better than what is read”. Despite the fact that journey of Odia movie started with a talkie viz. ‘Sita Bibaha’ unlike other language movies where the starting was mostly with a silent movie, this industry has been going through visibly underprivileged state of affairs. During the initial phases of Odia movie production was at a slow pace and it has not picked up that fast during the subsequent phases of time thanks to several reasons like weak story lines, poor infrastructure, and insufficient production budget and so on. Adding to the facts are the developments which have taken place in the movie arena of other language and dialect. Odia film industry is moving in a snail space but it has potential to go for a long way for the socio-economic development of Odisha. The present study focuses to explore the areas of concern for the Odia film industry on the viewer’s opinions by understanding the behavior of the viewers with respect to Odia films vis-à-vis other language films. This effort is intended to bring out a platform for subsequent researches on a large scale.

**Keywords:** *social reflections, entertainment, choreography, actors, awareness, media coverage*

### 1. Introduction

Movies at large are committed to the sense of the viewer, the reader, and the spectator in relation to the experience of modernity as involving complex forms of subjectivity, agency, pleasure, and embodied experience. The adjective mass in relation to contemporary culture appears destined to elide these complexities of reception. Building on some countercurrents in twentieth century culture theory (Benjamin 1976, Kracauer, 1987, Liebman 1988 and Iser 1989), the entertainment world per se is interested in moving towards a theory of reception that is global and oriented to the interaction of media in the experience of viewers regarded as varieties of subjects. The power of media in general in Indian contest can be understood from one of the famous following opinions which goes like this: The Indian who goes barefoot but clutching a transistor radio beneath his poncho, runs the risk of getting nowhere, and ending up in no man’s land: like a man who has lost his fingerprints. This is the danger we would all risk if, cursing our cultural identity and ceasing to defend it, we blindly accepted the bilateral assistance, foreign technicians and international cooperation which correspond to other mental patterns, other

orientations and other objectives (Oswaldo Guayasmin). India is the largest film-producing country in the world and one fifth of its current annual production of approximately 750 films is made in Hindi (Alison Arnold, 2008).

Coming to the Odia film industry, it started on a winning note with the first movie named 'Sita Bibaha (released in 1936)' was right away a talkie unlike other language movies which started with silent movies including Hindi movies as well. However, the pace at which the so called Odia movie industry has been moving thereafter is not encouraging. Though in Odisha, there is no dearth of talents, viz. actors, directors, musicians, story writers etc. the movie in its final shape has not visibly attracted the next gen of audience as the other language movies have done. Thus it has become imperative to explore the mindset of an audience choosing to enjoy an Odia movie in his or her preferred manner.

## **2. Methodology**

### **2.1 Objectives**

- To understand the viewers behavior with respect to Odia films vis-à-vis other language films
- To explore the variables which stand out to be having an effect on the entertainment characteristics of viewers.
- To explore the areas of concern for the Odia film industry base on the viewer's opinions.

### **2.2 Scope of the Study**

- The results of this study carry with it scope for further research.
- The study of film industry of Odisha has a vast scope that encompasses different regional cultures, languages of people of Odisha for their socioeconomic life.

### **2.3 Research Design**

The very nature of our study indicated the type of research to be 'Exploratory' only where the attempt has been made to discover the variables constructing the change in the preference pattern of viewers towards the Odia films vis-à-vis other language films.

### **2.4 Data collection**

For the present study of ours data were collected from both following primary and secondary sources. The data were collected for a non-specific period.

**2.4.1 Secondary data:** The data sources were various publications related to Odia Films, viz. magazines, journals, newspaper and so on.

**2.4.2 Primary data:** These were collected through a structured questionnaire containing close ended questions and with a five-point Likert scale.

For the study the sample size was 200 viewers randomly chosen near various theatres running Odia movies in different time periods.

## **3. Limitations**

- The non-availability of secondary data is the major hurdles in this study of course.
- Moreover, being a virgin venture in this end the study surely calls for a thorough research on this issue and the researcher is in short of time and space at this point.

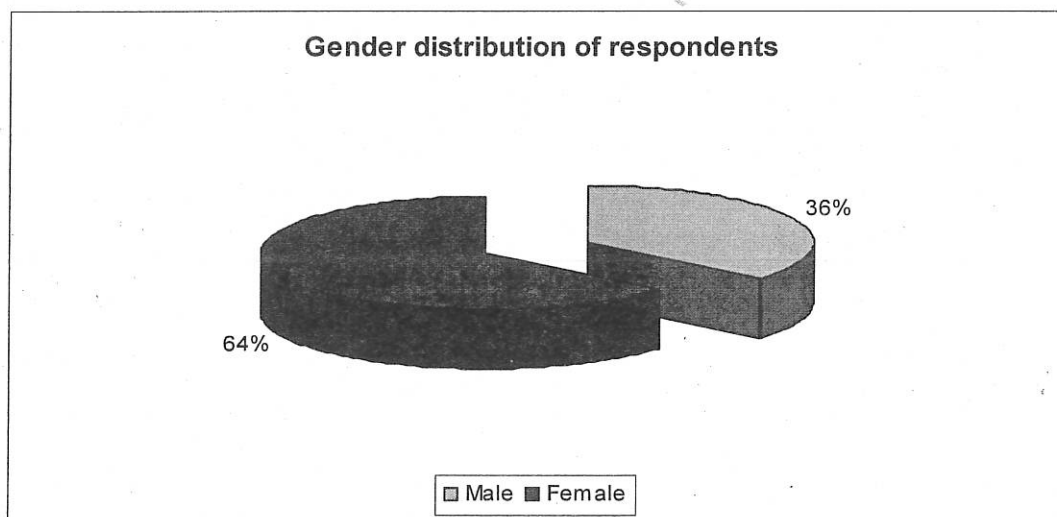


#### 4. Findings & Interpretations

The findings on the demographic profile of the respondents are cited as follows:

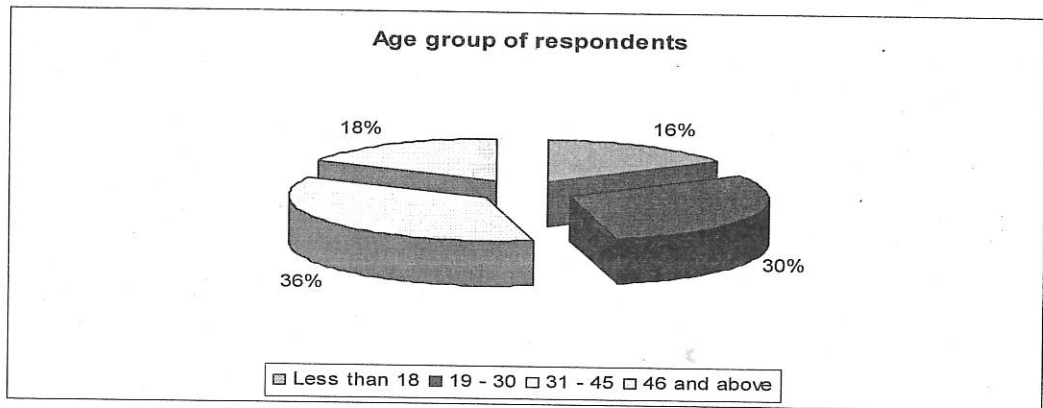
Chart-I  
(Gender)

Gender	Number of respondents
Male	72
Female	128



About 64% of the respondents belonged to the female segment of the audience. This group of respondents were enthusiastic enough to participate in this kind of study of ours. The group contained mostly housewives, college goers etc. However the male segment of the respondents though less in comparison to their female counterpart also formed a substantial part of the respondent group and contained mostly the people either in a family or accompanying a female respondent.

**Chart- II**  
(Age Group)



The findings on age group of respondents were made on four major classes. As seen it was firstly less than 18 years suggesting the interest among the minor age group of citizens for the Odia movie and it was found to be 16% of the respondents. Secondly, it was the youth category of respondents between the age group of 19 to 30 and it was found to be consisting of 30% of the audience. Naturally, the third age group of respondents, i.e. from 31 to 45, the middle class of the respondents were found to consist a major chunk of the respondents. Lastly, the senior class of respondents, i.e. above 46 were consisting of 18% of the respondents. Thus it suggests an interest level of respondents lies in a bigger number in the family and senior viewers and at the same time it also suggests an emerging interest in the young viewers as well.

**Chart- IV**  
(Family characteristics)

Characteristics	Number of respondents
You & your spouse	24
Nuclear family	44
Joint family	132

When asked about the kind of family the audience belongs to, most of the respondents found to be belonging to the joint family (around 66%) indicating that Odia movie has been successful in attracting a mass of audience characterized by a family of multiple decision makers. However, there is an emergence of nuclear family which is following the former type of family in the audience set and a very few of the audience were found to be a group of couples.

Chart-V

(Source of information for Odia movies)

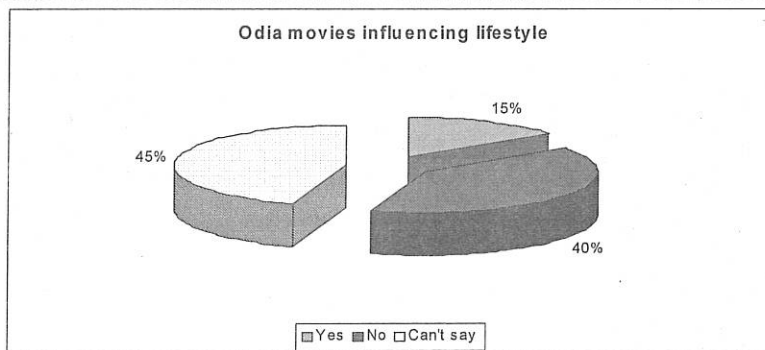
Characteristics	Number of respondents
You & your spouse	24
Nuclear family	44
Joint family	132

News dailies, mainly Odia dailies like Samaja, Sambad etc. were found to be major information provider to the viewers of Odia movies. In fact friends & relatives have also become the influencers in terms of information providers to the respondents (around 20% of the respondents). One silver lining for the emerging local TV & Satellite channels is that the viewers are also getting updated about the upcoming movies by the former. Apart from those events, celebrities also act as source of information for these viewers.

Chart-VI

(Odia movies influencing lifestyle)

Opinion	Number of respondents
Yes	30
No	80
Can't say	90



As far as Odia movies acting as influencing agents in the lifestyle of the viewers are concerned, most of the respondents were not sure whether there is any outcome as such (around 45%) followed by most of them saying negative about such influence. This indicates the very reason of movies in the modern day context missing its impact on the lifestyle of the society and remaining only as a mere entertainment tool. However, though small in percentage, there is a group of respondents who agreed to the fact that Odia movies as movies have somehow had influence on their changing needs, looks and above all the cosmopolitan thinking which have become the order of the day.



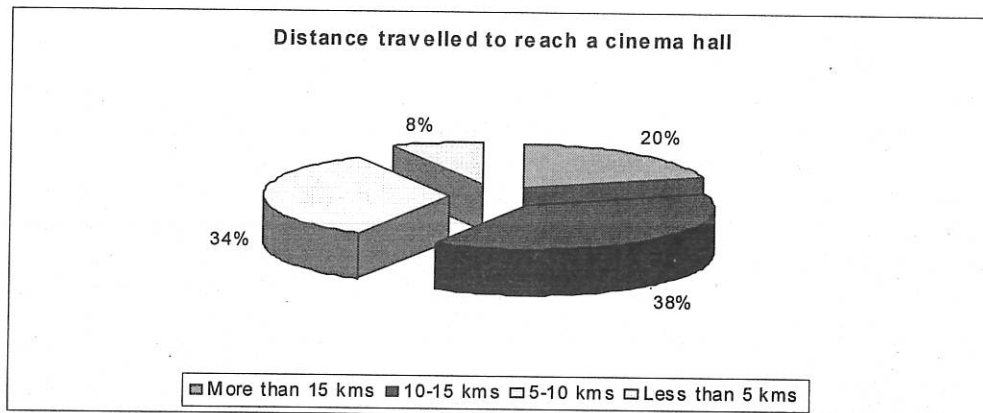
Chart- VII

(Distance travelled to reach a cinema hall)

Distance traveled

Number of respondents

Distance traveled	Number of respondents
More than 15 kms	40
10-15 kms	76
5-10 kms	68
Less than 5 kms	16



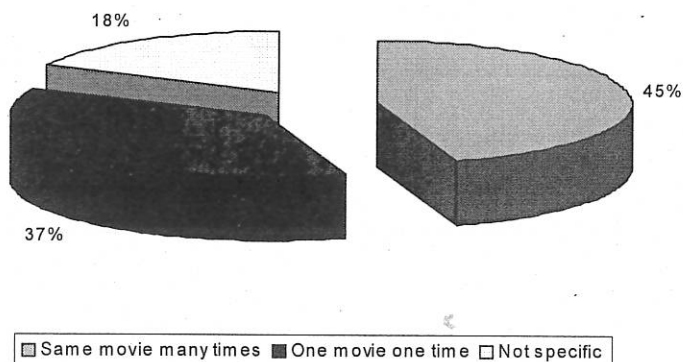
It was found that the viewers of Odia movies still travel a fair distance in order to see their choicest movie as being interpreted from the above chart (about 38% of the respondents traveling a distance of 10-15 kms coupled by 20% of the respondents traveling more than 15 kms in order to reach their destination of watching an Odia movie). Very less percentage of audience can really travel a less distance (within 5 kms) in order to see and enjoy an Odia movie in the theatre at their vicinity.

Chart- VIII

(Nature of movie watching- particularly Odia movie)

Nature	Number of respondents
Same movie many times	90
One movie one time	74
Not specific	36

## Nature of movie watching- particularly Odia movies



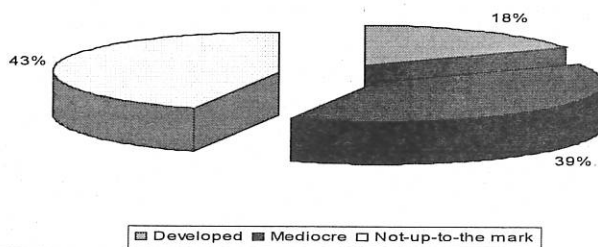
Around 45% of the respondents saying to see the same movie many times indicate a fact that the number of movies so as to say good Odia movies has been very small in number resulting in the former trend. Adding to this fact is that the movie goers also don't like to see the same movie again as being represented by the fact that 37% of the respondents saying to have seen one movie for one time only. It indicates the disloyalty of movie goers to a single movie.

Chart-IX

(Quality of movie halls in your location)

Quality	Number of respondents
Developed	35
Mediocre	77
Not-up-to-the mark	88

## Quality of movie halls in the location

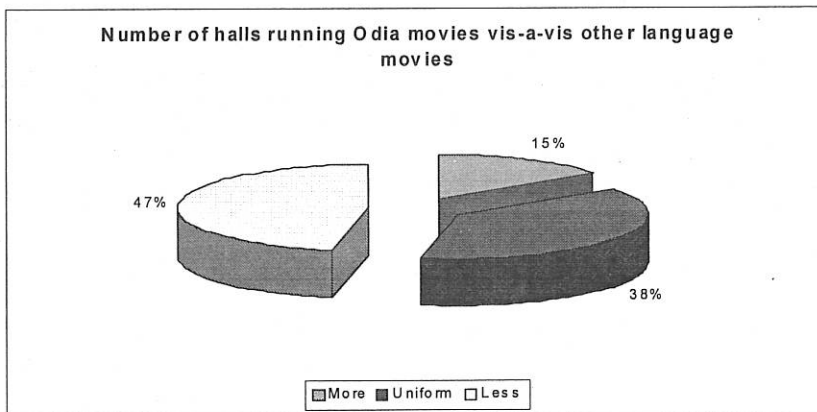


When asked about the quality of movie halls in their vicinity with their prior experience about recent types of movie halls in other areas, the response was very disappointing with 43% of the viewers have indicated the kind of halls are not-up-to-the mark. This kind of answer was because of the lack of state-of-the-art facilities along with minimum requirements like hygienic factors, air-conditioning system etc. This group was followed by another group of almost 39% of the respondents which termed the cinema halls as mediocre and very less (around 18%) only said highly about the quality of the same.

**Chart- X**

(Number of halls running Odia movies vis-à-vis other language movies)

Frequency	Number of respondents
More	30
Uniform	76
Less	94



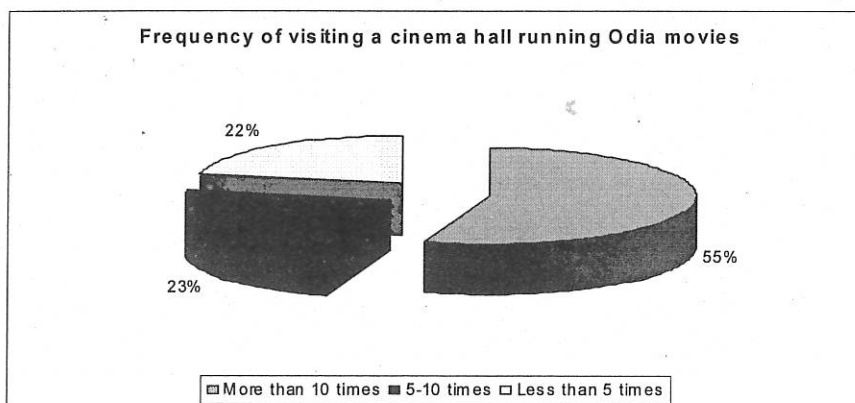
It was observed that very less number of cinema halls is running Odia movies and they preferred to run other language movies (mostly Hindi & English) as per the opinions of the movie goers. The responses which came in favour of number of halls running Odia movies were 15% of the entire viewers' group thanks to their locations in the rural and suburban areas and at the same time presence of very few cinema halls as well. However there was still a group of respondents who had given the opinion of cinema halls running Odia movies uniformly with other language movies.



Chart- XI

(Frequency of visiting a cinema hall running Odia movies)

Frequency	Number of respondents
More than 10 times	110
5-10 times	46
Less than 5 times	44



When asked about the cinema halls running Odia movies and the frequency of going to these halls, most of the respondents found to be very encouraging to say that they generally visit these halls for more than 10 times indicating their curiosity and interest to know more about the recent movie releases and happenings in those halls typically running Odia movies. However, there are still some viewers who were not found to be loyal to such types of movie halls as indicated by their comparatively lesser number of visits to the later.

The variables which are taken for analysis are as follows (Please refer the questionnaire at the end):

- V1: Story Line    V2: Actors    V3: Direction    V4: Quality  
V5: Technology    V6: Music    V7: Choreography    V8: Media coverage  
V9: Dialogues    V10: Social reflection    V11: Entertainment  
V12: Resourcefulness    V13: Originality

Chart- XII

Consolidated ratings on the above variables by respondents about Odia movies vis-à-vis other language movies (where 1 = Best, 2 = Good, 3 = Average, 4= Poor, 5 = Worst)

Variables	Ratings				
	1	2	3	4	5
V <sub>1</sub>	0	10	144	46	0
V <sub>2</sub>	0	20	90	70	20
V <sub>3</sub>	0	20	90	70	20
V <sub>4</sub>	0	12	50	120	18
V <sub>5</sub>	0	8	10	140	42
V <sub>6</sub>	10	130	54	6	0
V <sub>7</sub>	0	22	54	108	16
V <sub>8</sub>	0	7	10	85	98
V <sub>9</sub>	0	30	115	45	10
V <sub>10</sub>	30	95	55	20	0
V <sub>11</sub>	0	13	80	95	12
V <sub>12</sub>	0	0	8	65	127
V <sub>13</sub>	0	0	8	65	127

Except V<sub>6</sub> and V<sub>10</sub>, i.e. music and social reflection respectively, none of the variables have been weighted as the best about the Odia movies vis-à-vis other language movies.

#### Reliability Analysis - Scale (Alpha)

Reliability Coefficients

Number of Cases = 200.0

Number of Items = 13

Alpha = .9664

Variables	Chi-square	Degrees of freedom	Asymptotic Significance
V <sub>1</sub>	144.280	2	.000
V <sub>2</sub>	76.000	3	.000
V <sub>3</sub>	124.960	3	.000
V <sub>4</sub>	147.360	3	.000
V <sub>5</sub>	230.560	3	.000
V <sub>6</sub>	106.400	3	.000
V <sub>7</sub>	106.400	3	.000
V <sub>8</sub>	139.560	3	.000
V <sub>9</sub>	125.000	3	.000
V <sub>10</sub>	67.000	3	.000
V <sub>11</sub>	114.760	3	.000
V <sub>12</sub>	106.270	2	.000
V <sub>13</sub>	81.880	3	.000

### *Test Statistics*

The value of Alpha closer to 1 and all the variables with a Chi-square value in the higher terms proves the reliability of these variables in our experiment. It indicates the variables are reliable enough to understand and subsequently explain the phenomena under consideration, i.e. the psychological field of Odia movie goers.

### **5. Proposed Framework**

As found from the above study, Odisha film industry is going a paradigm shift in terms of respondent way of understanding travelling and availing the experience. In order to stabilize the change and becoming stronger in the prospective viewers mind, the industry has to target the viewers with a view of the suggested following framework.

Key result areas can be in terms of movies with acceptable music and a theme which represents the contemporary society and the ingredients might be a thorough emphasis on:

- target audience of middle to old age viewers
- joint family based concepts
- opening up more cinema halls in the vicinity of those viewers who like to go to the cinema halls almost every other time
- leading local news dailies whereby the movies, news of Odia film industry can be conveyed to the respondents in the most effective manner.
- increasing the number of loyal viewers of Odia movies

### **6. Conclusion & Further Scope of Research**

'Bollywoodisation' would be the perfect word which can supplement a literature on film and entertainment economics that has been dominated by a 'Hollywood hegemony'. More generally, the findings also suggest insights into the growth and internationalization of industries in emerging economies. A purely indigenous industry, Bollywood has demonstrated that emerging economies may not just attract FDI to clusters such as Bangalore, Mumbai etc. they may create own, high-growth and internationalizing, clusters. In explaining the growth of such clusters, the case of Bollywood suggested aspects of both home market, government regulation, and industry structure; not the least, social network structures which can be stretched further to the Odia film industry..

No doubt Odisha Govt. has enacted different policies and programmes for development of Odia language and its culture before the national platform in particular and to the world platform in general, but the regional difference is aggravating the situation of disintegration of Odisha. This can be tackled fully if and only if film industry play its role by utilizing its optimum resources that motivates the people of

Odisha to live in one family in spite of differences in culture and language and see a new Odisha in the days to come.

It can uphold the dignity of Odia people through its language, folklore and dances for socio- cultural integration. The film industry is having the potentiality of source of income generation, creation of employment opportunities that supplement Govt. policies and programmes since it is not only a source of entertainment as well as education for social value.

With an aim to understand the psychological drivers of Odia movie goers, this work can be used to make further research to:

- Understand the socio-economic dimensions of movie viewers from the Odia film industry perspectives
- Suggest various stakeholders like production houses, Govt. of Odisha, NGOs and so on to enhance and uplift the current fate of Odia entertainment industry at large to put it on the global map.

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### Questionnaire

Dear Sir/ Madam,

The following questions are prepared for obtaining certain valuable opinion which will be solely used for the purpose of research and academics. The information provided by you in all the forms will be kept confidential. Therefore please cooperate with us in providing your independent answers

1. Name
2. Gender
3. Age group
  - a) Less than 18      b) 19- 30 c) 31 – 45      d) 46 and above
4. What does best describe your family?
  - a) You and your spouse      b) Nuclear family c) Joint family
5. What is the source of getting information about Odia movies?

- a) Friends & relatives      b) News dailies      c) Local TV & Satellite channels  
 d) Trailers in the cinema halls e) Any other sources
6. Do the Odia movies influence your lifestyle?  
 a) Yes      b) No      c) Can't say
7. How long do you generally travel to reach a cinema hall?  
 a) More than 15 kms      b) 10- 15 kms      c) 5-10 kms      d) Less than 5 kms
8. How do you describe your nature of movie watching (particularly Odia movie)?  
 a) Same movie many times      b) One movie one time      c) Not specific
9. What is the quality of movie halls in your location?  
 a) Developed      b) Mediocre      c) Not-up-to –the mark
10. In your opinion, what is the number of halls running Odia movies vis-à-vis other language movies?  
 a) More      b) Uniform      c) Less
11. In a year how many times do you visit a cinema hall running an Odia movie?  
 a) More than 10 times      b) 5-10 times      c) Less than 5 times

In a 5 point rating scale how do you rate Odia movies vis-à-vis other movies on the following parameters  
 (where 1 = Best, 2 = Good, 3 = Average, 4= Poor, 5 = Worst)

• Story line	1	2	3	4	5
• Actors and acting	1	2	3	4	5
• Direction	1	2	3	4	5
• Quality	1	2	3	4	5
• Technology	1	2	3	4	5
• Music	1	2	3	4	5
• Choreography	1	2	3	4	5
• Media coverage	1	2	3	4	5
• Dialogues	1	2	3	4	5
• Social reflections	1	2	3	4	5
• Entertainment	1	2	3	4	5
• Resourcefulness	1	2	3	4	5
• Originality	1	2	3	4	5

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## Financial Inclusion and Banks: Issues and Challenges

Dr. Lipishree Das\*

### Abstract

Financial Inclusion means taking banking services to common man – a topic of contemporary importance and relevance. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. The paper focuses on the bankers' role in promoting financial inclusion, their achievements, and the key issues and challenges being faced by them. It also aims to analyze the role played by banks in creating Financial Inclusion and the future strategy they need to adopt to make further progress. It is clear that financial inclusion is a multidimensional phenomenon. Despite heightened focus on financial inclusion Indian banks somehow failed to bring the under and un-banked into the mainstream banking fold. Even after more than forty years of nationalization of banks, approximately 40 per cent of India's populations have bank accounts and only 10 percent have any kind of insurance cover. One of the ways in which this can be achieved in a cost-effective manner is through linkages with microfinance institutions and local communities.

**Key words** - Financial inclusion, Multidimensional, Un-banked, Microfinance, Nationalisation

### Introduction

Financial inclusion aims at drawing the "unbanked" population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance. In a broad sense financial inclusion refers to delivery of financial system of an economy to its members. Financial inclusion is a huge task and it cannot be achieved without the active collaboration of all stakeholders. The Government of India's 'Committee on Financial Inclusion in India' defines financial inclusion 'as the process ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost' (Rangarajan Committee, 2008). Since most of the financial services are coordinated through banks, we can approximate financial inclusion by banking inclusion. In fact, Leeladhar (2005) defined financial inclusion as 'delivery of banking services....' In this paper we follow this suggestion and regard the terms financial inclusion and banking inclusion as financial inclusion concerns spread of banking activities among different sections of the population. The domain of activities can be quite large and it may vary from country to country. For instance, in UK three major dimensions

of financial inclusion are access to banking, access to affordable credit and access to face-to-face money advice. While these three dimensions are important for India as well, a significant part of bank credit in countries like India should be directed towards priority sectors such as agriculture and economically backward sections of the country. Today the term 'bottom of the pyramid' refers to the global poor most of whom live in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty. Accordingly, there is felt a need for policy support in channeling the financial resources towards the economic upliftment of resource poor in any developing economy. It is also necessary to ensure that persons belonging to low income groups do not face any difficulty in opening bank accounts because of procedures involved in the process. Amartya Sen (2000) opined that financial inclusion is intended to connect people to banks with consequential benefits. Ensuring that the financial system plays its due role in promoting inclusive growth is one of the biggest challenges facing the emerging economies. We therefore advocate that financial development creates enabling conditions for growth when access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged areas and lagging sectors is recognised as a pre-condition for accelerating growth and reducing income disparities and poverty.

This paper is an attempt to bring out the issues and significance of Financial Inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are very much essential for overall economic growth of a country. The paper focuses on the bankers' role in promoting financial inclusion, their achievements, and the key issues and challenges being faced by them. It also aims to analyze the hurdles in creating Financial Inclusion and the future strategy they need to adopt to make further progress. The paper is divided into five sections. First section deals with the introduction and definition of the concept of Financial Inclusion, second section includes issues relating to it, third section deals with the role of banks in achieving Financial Inclusion, in the next section challenges of Financial Inclusion is discussed and the last section includes conclusion.

Financial inclusion is a multidimensional phenomenon. The study of financial inclusion is highly important for the society because consequences of financial exclusion may be quite harmful. Financial exclusion may generate lower investment resulting from difficulties in getting access to credit or gaining credit from informal sector at very high interest rates. Particularly, without broad and easy access consequences may be grave for the small business sector and poor sections of the society. A well-developed financial system is highly important for economic development. It is likely that through entry of new firms' financial development will promote economic growth (Klapper et al., 2004). Finally, since well-being of a population depends on many attributes such as income, health, housing etc., access to financial services can as well be regarded as a basic ingredient of human well-being. It is therefore necessary to design appropriate policy for financial inclusion.

### *1.1 Financial Inclusion - A global policy priority*

The importance of an inclusive financial system is widely recognized in the policy framework, not only in India, but has become a policy priority in many countries. Several countries across the globe now look at financial inclusion as the means of a more comprehensive growth, wherein each citizen of the country is able to use their earning as a financial resource that they can put to work to improve their future financial status, adding to the nation's progress. In advanced markets, it is mostly a demand side issue. Initiatives for financial inclusion have come from the financial regulators, the governments and



the banking industry. The banking sector has taken a lead role in promoting financial inclusion. Legislative measures have been initiated in some countries. For example, in the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhood. In France, the law on exclusion (1998) emphasizes an individual's right to have a bank account. The German Bankers' Association introduced a voluntary code in 1996 providing for an 'everyman' current banking account that facilitates basic banking transactions. In South Africa, a low cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association. In the United Kingdom, a 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion. The "Principles for Innovative Financial Inclusion" serve as a guide for policy and regulatory approaches with the objectives of fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved and delivery of the full range of affordable and quality financial services.

The nineties witnessed the Indian economy achieving GDP growth rates above 7 to 8 per cent prompting many to believe that the period of 'Hindu rate of growth' had been left behind. However, by the beginning of the new millennium, concerns were raised about the 'inclusiveness' of the growth process. The majority of the population depends on agriculture for their livelihood. For all farmer households taken together, at the all India level, institutional sources were responsible for providing only 57.5 per cent of the total credit, a downward trend compared to the situation prevalent (66.3%) during 1991-92 as reported by the All India Debt and Investment Survey. Given the above trends the focus has shifted to financial inclusion which means providing access to basic financial services at affordable prices, a pre-requisite for ushering in inclusive growth. In India the Financial Stability and Development Council (FSDC) headed by the Finance Minister is mandated to focus on financial inclusion and financial literacy. All financial sector regulators including the Reserve Bank of India are committed to the mission. From 2005 onwards Financial Inclusion was explicitly made as a policy objective. The notion of building inclusive financial systems recognizes not only the goal of incorporating as many poor and previously excluded people as possible into the formal financial system, but it also assigns to mainstream financial institutions the role of reaching out to the unbanked.<sup>2</sup> From this perspective, microfinance is now seen as an integral part of an inclusive financial system.

### ***1.2 Definition of Financial Inclusion***

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players. The review of literature suggests that the most operational definitions are context-specific, originating from country-specific problems of financial exclusion and socio-economic conditions. Thus, over the years, several definitions of financial inclusion/exclusion have evolved. In the Indian context, Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008)) defines it as: "*Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.*" The above definition gives importance to accessibility of credit at an affordable cost to the disadvantaged sections of the society. The financial services

include the entire gamut -savings, loans, insurance, credit, payments etc. By providing these services, the aim is to help them come out of poverty.

It is in this context it can be said that MFIs/NBFCs/NGOs on their own would not be able to bring about financial inclusion as the range of financial products and services which is consider as the bare minimum to qualify as availability of banking services cannot be offered by MFIs/NBFCs/NGOs. But, yes, they have an immense and extremely important role to play in furthering financial inclusion in the sense that they bring people and communities into the fold of the formal financial system. While in developed countries, the formal financial sector comprising mainly the banking system serves most of the population, in developing countries, a large segment of the society, mainly the low-income group, has little access to financial services from such sector and had to depend on the informal sources which are generally at a high cost. Formal financial sectors in most developing countries serve relatively a small segment, often not more than 20-30 per cent of the population, the vast majority of whom are low income households in rural areas (ADB, 2007). A World Bank<sup>3</sup> report states, "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." It recognizes the fact that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. It makes the point that creditworthiness of the customer is critical in providing financial services. The report also stresses the distinction between 'access to' and 'use of' financial services as it has implications for policy makers. *'Access' essentially refers to the supply of services, whereas use is determined by demand as well as supply.* Among the non-users of formal financial services a clear distinction needs to be made between voluntary and involuntary exclusion. The problem of financial inclusion addresses the 'involuntarily excluded' as they are the ones who, despite demanding financial services, do not have access to them. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings products suited to the pattern of cash flows of a poor household, money transfer facilities, insurance (life and non-life), etc. Thus, it is clear that the objective of "Comprehensive Financial Inclusion" is to provide a whole gamut of financial services. However, in a restricted sense, financial inclusion can be achieved if some of the financial services, to start with credit, can be offered. Although, having a bank account may not be a good indicator of financial inclusion, nevertheless, it is a basic formal banking service, which "confers a sense of identity, status and empowerment and provides access to the national payment system".<sup>4</sup>

### 1.3 Evidences of Financial Inclusion world-wide

Empirically, in the Indian context, Bell and Rousseau (2001) have shown how financial intermediaries in India have played a leading role in influencing its economic performance. The financial sector, among other things, not only led to promoting aggregate investment and output but also in attaining finance-led industrialization. Studies by Burgess and Pande (2003) and Burgess, Pande and Wong (2004) have shown that rural branch expansion in India was associated with nonagricultural growth and has helped in reducing rural poverty. This has been termed by some as supply-leading strategy.

Financial institutions contribute to growth by reducing information asymmetries that would otherwise hinder the efficient intermediation of resources among savers and investors. There is substantial evidence that financial development has a causal impact on growth. A prominent explanation is Schumpeter's view that finance fuels "creative destruction" by allocating resources to newcomers



that promote innovation and possibly topple incumbents. Along these lines, access to finance for new entrepreneurs is an important ingredient in the finance-growth nexus (Torre et.al, 2007).

More recently, the focus has shifted to links between finance and income inequality. Beck and others (2008) found a link between financial development, reduced income inequality, and poverty alleviation: the aggregate usage of financial services, that is, deeper financial systems, appears to reduce Gini coefficients, a measurement of inequality.

There is also evidence at the macroeconomic level that broader financial systems enhance economic growth. Giné and Townsend (2004) show that, based on a general equilibrium model of the Thai economy, the expansion of access to the financial sector has significantly raised Thailand's growth rate. Conversely, Banerjee and others (2009) emphasize the efficiency and productivity losses associated with preferential access to finance by the better off, and suggest a potential first-order effect of access on investment and growth.

The flow chart given below shows the linkages and the transmission mechanism through which finance and economic growth are linked.

#### Theoretical Approach to Finance and Growth

Financial markets and intermediaries
Financial functions - mobilize savings - allocate resources - exert corporate control - facilitate risk management - ease trading of goods, services, contracts
Channels to growth - capital accumulation - technological innovation
GROWTH

Source: Levine 1997

#### 1. Issues Relating to Financial Inclusion

##### 1.1 Access to Finance

The non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India which has a long history of developing an inclusive banking system. The objective is to take banking to all excluded sections of the society, rural and urban. To provide banking services to all the 6 lakh villages and meet their financial needs through

basic financial products like savings, credit and remittance is not an easy task. Though, the focus initially was to cover villages with population above 2000 by March 2012, banks have since drawn up their Board approved Financial Inclusion Plans to put in place a roadmap for extending banking services in all villages in an integrated manner over a period of next 3 to 5 years. In developing countries like ours, access to a simple bank account, is to start with, the gateway to basic banking services. Savings bank account can play an important role in helping poor and vulnerable people. But with regards to access to finance the data show that India is not up to the mark in table-1 (Annex -1) according to the bench mark given. Thus, based on the data, in terms of branch access, India does not fare badly compared to other countries. If we analyse ATM access, Nepal ranks at the bottom with 0.48 ATMs per 1000 sq. km. In many countries, majority of the bank branches and/or ATMs may be located in urban settlements leading to restricted accessibility in surrounding areas. Both geographic and demographic measures cover only the 'outreach' dimension of financial inclusion and does not cover the other important dimension, i.e., 'actual usage'. Indicators like (i) number of loans per 1,000 persons and (ii) number of deposits per 1,000 persons capture the use of access to financial/banking services, which is also below the bench mark given in the table. According to a nation-wide survey carried out by IISS (Invest India Incomes and Savings Survey, 2007), 97 per cent of all households do not have any health insurance and 61 per cent do not have life insurance. 52 per cent of Indians do not have bank accounts. Thus, even though we have made great strides in the development of our financial markets, large sections of the population do not avail of the basic financial services in India (Table-5).

Table -2 provides the data of microfinance outreach in India in comparison to South Asia which is also not satisfactory. Since most of these financial services are provided by the market, both supply and demand side considerations are important. From the supply side, difficulty of access and lack of availability are prime hurdles; from the demand side, the major issues are the cost of these services and the lack of awareness of the benefits from these services.

### *1.2 Problem of indebtedness*

This problem is more prominent in rural areas. Of late; the issue of farmer's indebtedness has held center-stage and has been linked to the growing problem of agrarian distress. In some cases, indebtedness and failure to repay the debt can become one of the important causes of farmers' suicides.<sup>5</sup> It is his social status which compels him to borrow more and more. In fact volume of debt does not matter but it is the purpose of debt that matters a lot. From the various studies conducted by the experts it is found that debt is being used not for productive purposes rather it is used for unproductive purposes like marriage, birthday celebration or other social obligations.

From the standpoint of farm economy, indebtedness exists when the service of a loan invested in the farm does not exceed the net income which can be secured under the mode of farming practiced, with labour available, and at a certain rate of prices and costs. However, the farm is considered to be over indebted, i.e. from an objective standpoint when to meet debts or current or matured repayment quotas, the farmer has to sell at a loss his working equipment and means of production (implements, machinery, livestock etc.) thus endangering the future working of the farm.

### *1.3 Declining of formal sources of credit*

Indebtedness to formal sources of credit is an indicator of access to credit. Compared to earlier periods, access to formal credit declined for cultivator households during 1991-2002 (Table 3). Post bank nationalization, considerable increase took place in the share of institutional sources in cultivators' debt from about 32 per cent in 1971 to 66 per cent in 1991. However, the trend saw a reversal during the



1990s and the share declined to 61 per cent in 2002 (Table 3). The share of formal sector lending more than doubled between 1971 and 1991 but it declines after that due to liberalization policy and financial sector reforms. The result flows from this fact presented in table-3 that the banking system - was not able to internalise lending to the poor as a viable activity but only as a social obligation – something that had to be done because the authorities wanted it. Thus it is evident that the problem of financial inclusion is acute and has accentuated in the post- liberalization period. This trend needs to be reversed. Data (table-4) shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher percentage of unemployment except Srilanka.

To summarise, it is evident that the problem of financial inclusion is acute and has accentuated in the post- liberalization period. This trend needs to be reversed. In the next section we discuss some of the recent initiatives taken by the Government of India, RBI, NABARD and commercial banks in this regard.

## 2. Role of Banks and Financial Institutions in India

It is well recognized that there are supply side and demand side factors driving inclusive growth. Banks and other financial services players are largely expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Access to financial products is constrained by several factors which include lack of awareness about the financial products, unaffordable products, high transaction costs and products which are inconvenient, inflexible, not customized and of low quality. However, we must bear in mind that apart from the supply side factors, demand side factors such as lower income and /or asset holdings also have a significant bearing on inclusive growth. Owing to difficulties in accessing formal sources of credit, poor individuals and small and micro enterprises usually rely on their personal savings and internal sources or take recourse to informal sources to invest in health, education, housing and entrepreneurial activities to make use of growth opportunities. The mainstream financial institutions like banks have an important role to play in overcoming this constraint, not as a social obligation, but as pure business proposition.

In short GoI constituted a committee for studying Financial Inclusion in June 2006 under the chairmanship of Dr. C. Rangarajan. Based on the Report, two separate funds, namely the Financial Inclusion Fund with corpus of Rs.500 crore for meeting the cost of developmental and promotional interventions and a Financial Inclusion Technology Fund with corpus of Rs.500 crore to meet the cost of technology adoption has been created with NABARD. The initial amount for these funds is to be contributed by GoI, RBI and NABARD. Further, at least 250 rural household accounts are to be added every year by commercial banks and RRBs in rural and semi- urban branches and individuals like retired bank officers, ex-servicemen, etc, to be appointed as business facilitators or credit counselors. RRBs to extend branch outreach to unbanked areas to achieve financial inclusion. To strengthen the **SHG-bank linkage** programme, SHGs to be encouraged in excluded areas, support capacity building of government functionaries, opening of dedicated project offices by NABARD in priority states, incentivising NGOS to diversify into backward areas, etc. 'Micro-Finance Development and Equity Fund', was established at NABARD with a corpus of Rs.200 crore. Capital support is provided in the form of soft loan at 3.5% interest rate to Micro Finance Organisations and MFI- NBFCs. Government of India has launched various programmes to raise the level of investment in agriculture. Some of the important programmes include Rashtriya Krishi Vikas Yojana, Accelerated Irrigation Benefit Programme, Rainfed Area

Development Programme, National Horticulture Mission, etc. RRBs to take up branch expansion programme with at least one branch in 80 uncovered districts since 2007-08.

It is not that efforts have not been made in the past to promote financial inclusion. The Nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups- all these were initiatives to take banking services to the masses. The brick and mortar infrastructure expanded; the number of bank branches multiplied ten-fold - from 8,000+ in 1969 when the first set of banks were nationalized to 80,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The proportion of rural residents who lack access to bank accounts is nearly 40 per cent, and this rises to over three-fifths in the eastern and north-eastern regions of India. The major barriers cited to expand appropriate services to poor by financial service providers are the lack of reach, higher cost of transactions and time taken in providing those services.

### 2.1 Initiatives taken by RBI

The Reserve Bank of India (RBI) has initiated a number of policy measures in recent years to improve the credit delivery mechanism and bring about maximum financial inclusion of the poorer sections of the society. Some of the important ones are:

- i. **Relaxation on KYC norms:** Know Your Customer (KYC) requirements for opening bank accounts were earlier relaxed for small accounts in August 2005, simplifying procedure by stipulating that introduction by an account holder who has been subjected to full KYC drill would suffice for opening such accounts or the bank can take any evidence as to the identity and address of the customer to the satisfaction of the bank. During the year, it has been further relaxed to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and AADHAAR number.
- ii. **Simplified branch authorization:** To address the issue of uneven spread of Bank branches, since December 2009, domestic scheduled commercial banks are permitted to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, subject to reporting. In the North Eastern States and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi urban and urban centres without the need to take permission from Reserve Bank in each case, subject to reporting.
- iii. **Pricing has been made free:** Banks have been given the freedom to price their advances.
- iv. **Liberalization of Business Correspondents Model:** In January 2006, the Reserve Bank permitted banks to engage business facilitator and business correspondent (BC) as intermediaries for providing financial and banking services. The BC model allows banks to provide door step delivery of services especially 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The list of eligible individuals/entities who can be engaged as BCs is being enlarged from time to time. For-profit companies have also been allowed to be engaged as BCs. You would be happy to know that as on March 31, 2011,



domestic commercial banks have reported deploying 58,361 BCs, providing banking services in 76,081 villages.

- v. **Opening of branches in unbanked rural centres:** To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for opening of more brick and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the Monetary Policy Statement – April 2011, to allocate at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centres.
- vi. **Financial Inclusion Plan for Banks:** To achieve sustained, planned and structured financial inclusion, in January 2010, all public and private sector banks were advised to put in place a Board approved three year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank by March 2010. These banks prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013. These plans broadly include self determined targets in respect of rural brick and mortar branches to be opened; business correspondents (BC) to be employed; coverage of unbanked villages with population above 2000 as also other unbanked villages with population below 2000 through branches/BCs/other modes; no-frill accounts opened including through BC-ICT; Kisan Credit Cards (KCC) and General Credit Cards (GCC); and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The implementation of these plans is being closely monitored by the Reserve Bank.

*What has been done by banks so far?*

- i. **Coverage of villages:** Banks have, up to June 2011, opened banking outlets in 1.07 lakh villages up from just 54,258 as on March 2010. Out of these, 22,870 villages have been covered through brick & mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans, etc.
- ii. **Opening of No-frills accounts:** Basic banking 'no-frills' account, with 'nil' or very low minimum balance requirement as well as no charges for not maintaining such minimum balance, were introduced as per RBI directive in 2005. As on June 2011, 7.91 crore No-frills accounts have been opened by banks with outstanding balance of Rs.5,944.73 crore. These figures, respectively, were 4.93 crore and Rs 4257.07 crore in March 2010.
- iii. **Small Overdrafts in No-frills accounts:** Banks have been advised to provide small ODs in such accounts. Up to June 2011, banks had provided 9.34 lakh ODs amounting to Rs.37.42 crore. The figures, respectively, were 1.31 lakh and Rs 8.34 crore in March 2010.
- iv. **General Credit Cards:** Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on

June 2011, banks had provided credit aggregating Rs.2,356.25 crore in 10.70 lakh General Credit Card (GCC) accounts.

- v. **Kisan Credit Cards** : Kisan Credit Cards to small time farmers have been issued by banks. As on June 30, 2011, the total number of KCCs issued has been reported as 202.89 lakh with a total amount outstanding to the tune of 1,36,122.32 crore.

Thus, if we look at the progress that has been achieved in the last one and a quarter years it seems that objective of achieving universal financial inclusion is attainable. But, it is not automatic and cannot be taken for granted. There are a number of challenges that have to be surmounted.

### 3. Challenges

India currently faces several issues and challenges in the area of Financial Inclusion for Inclusive growth. Salient among them are stated here below;

- i. **Spatial Distribution of Banking Services**: Even though after often emphasized policy intervention by the government and the concerted efforts of Reserve Bank of India and the public sector banks there has been a significant increase in the number of bank offices in the rural areas; but it is not in tune with the large population living in the rural areas. For a population of 70% only 45% of bank offices provide the financial services.
- ii. **Regional Distribution of Banking Services**: The analysis by the authors brings to the fore that there has been uneven distribution of the banking services in terms of population coverage per bank office in the six regions viz; Northern, North-eastern, Eastern, Central, Western and Southern regions of the country.
- iii. **Bank Branches** are required to be increased as it has a direct impact on the progress of financial inclusion. It is clearly established that as the bank branches increase number of bank accounts also increase significantly.
- iv. **Poverty levels** are having direct relationship with the progress of financial inclusion. The authors have established in their study that as the poverty levels decrease financial inclusion also increase. As such, there should be multi fold strategic approach in such poverty dominated areas for financial inclusion.
- v. **SC/ST population**: It is ascertained by several study that in the areas of Scheduled Castes/ Scheduled Tribes population the progress of Financial Inclusion is slow which indicates that the efforts for Financial Inclusion has to be increased significantly in such areas in order to bring in social and economic equity in the society.
- vi. **Overcoming Bankers' Aversion for Financial Inclusion**: Even though no banker openly expresses his aversion for the financial Inclusion process, overtly it can be noticed that they are averse to it in view of the cost aspects involved in opening of no frill accounts.



#### *4.1 Way Forward – Future of Financial Inclusion*

- i. One of the major challenges under Financial Inclusion has been addressing the last mile connectivity problem. For addressing this issue and for achieving the goals set, experts have recommended the Business Correspondent/Facilitator (BC/BF) model. Though the BC model may not be commercially viable at the initial stage due to high transaction costs for banks and customers, the appropriate use of technology can help in reducing this. The need is to develop and implement scalable, platform-independent technology solutions which, if implemented on a large scale, will bring down the high cost of operation. Appropriate and effective technology, thus, holds the key for financial inclusion to take place on an accelerated scale.
- ii. Banks need to perfect their delivery and business model. A number of different models involving handheld devices with smart cards, mobiles, mini ATMs, etc are being tried out and it is necessary that they are integrated with the backend CBS system for scaling up. A good delivery model is also needed and, perhaps, even more so if there is a glitch and customer grievances needs to be resolved expeditiously. Thus, the time is approaching when these various experiments with different models are taken to their logical conclusion and banks start scaling up their implementation. At the same time, banks must also have an integrated business model. These hold the key to the success and failure of the financial inclusion efforts.
- iii. In addition to this, RBI has advised banks to focus more towards opening of Brick and Mortar branches in unbanked villages. These branches can be low cost intermediary simple structures comprising of minimum infrastructure for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 kms. This will lead to efficiency in cash management, documentation and redressal of customer grievances. Such an approach will also act as an effective supervisory mechanism for BC operations. Another very important thing is that banks have to realise that for Business Correspondent (BC) model to succeed, the BCs, who are the first level of contact for customers, have to be compensated adequately so that they too see this as a business opportunity
- iv. Banks should strive to provide a minimum of four basic products and, in addition, design new products tailored to income streams of poor borrowers and according to their needs and interests. Banks must be able to offer the entire suite of financial products and services to the poor clients at an attractive pricing. Though the cost of administering small ticket personal transactions is high, these can be brought down if banks effectively leverage ICT solutions. This can be supplemented through product innovation with superior cost efficiency. Mobile banking has tremendous potential and the benefits of m-commerce need to be exploited.
- v. It is important that adequate infrastructure such as digital and physical connectivity, uninterrupted power supply, etc. are available.
- vi. All stakeholders will have to work together through sound and purposeful collaborations to ensure appropriate ecosystem development. This would include government, both Central and State, Regulators, Financial Institutions, Industry Associations, Technology Players, Corporates, NGOs, SHGs, Civic Society, etc. Local and national level organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability

and desired impact. This collaborative model will have to tackle exclusion by stimulating demand for appropriate financial products, services and advice with appropriate delivery mechanism and by ensuring that there is a supply of appropriate and affordable services available to those that need them.

- vii. Mindset, cultural and attitudinal changes at grass roots and cutting edge technology levels of branches of banks are needed to impart organisational resilience and flexibility. Banks should institute systems of reward and recognition for personnel initiating, ideating, innovating and successfully executing new products and services in the rural areas.

#### 4. Conclusion

Today, there is a national as well as global focus on inclusive growth. The Financial Stability and Development Council (FSDC) headed by the Finance Minister is mandated to focus on financial inclusion and financial literacy. All financial sector regulators including the Reserve Bank of India are committed to the mission. And, very publicly, so are banks and other financial sector entities. If we are advocating any kind of stability whether financial, economic, political or social and inclusive growth with stability, it is not possible to attain these goals without achieving financial inclusion. Financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and emergency and also enables efficient payment mechanism, thus strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. Thus, financial inclusion is no longer a policy choice today but a policy compulsion. And, banking is a key driver for financial inclusion/inclusive growth.

To sum up, financial inclusion is the road which India needs to travel towards becoming a global player. Banks that have global ambitions must meet local aspirations. Financial access will also attract global market players to our country that will result in increasing employment and business opportunities. As we have all recognized, technology is a great enabler and has to act as a ladder to achieve the ultimate goal of providing financial services to the financially excluded. A line of caution here is that in order to serve millions of our poor villagers, what we need is "Technology with a human touch". Banks should, therefore, take extra care to ensure that the poor are not driven away from banking because the technology interface is unfriendly. This requires training the banks' frontline staff and managers as well as Business Correspondents on the human side of banking. In this task, a concerted and structured effort by all stakeholders is necessary.

Financial inclusion provides formal identity, access to payments system and deposit insurance. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.



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Table-1

## Access to Finance

Annex-1

Indicators	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Benchmark
Branches per 100,000 people	4.73	7.13	1.73	4.96	7.69	9 - 28
ATMs per 100,000 people	0.29	3.28	0.28	1.25	5.67	39 - 167
Deposit accounts per 1,000 people	255.23	780	110.4	171.14	1117.82	976 - 2418
Loan accounts per 1,000 people	61.11	137	10.83	31.78	364.22	248 - 776
Branches per 1000 sq. km.	44.53	25.5	2.97	9.67	15.81	1 - 159
ATMs per 1000 sq. km.	2.71	12.68	0.48	2.44	11.65	3 - 252

Source: Getting Finance in South Asia - 2010 *World Bank*

Table-2

## Microfinance Outreach

	Poor Population (mn)	Total Borrowers* (mn)
Bangladesh	71	30
India	312	22.6
Nepal	9	1.79
Pakistan	51	1.9
Sri Lanka	5	2.5
South Asia	459	59.08

Source: figures are for 2009(World Bank)

\*the numbers does not account for multiple borrowings and hence total outreach is less than number given here.

Annex-2

Table -3

## Share of Rural Household Debt by Source, India, 1961-2010(%)

Sources of credit	1961	1971	1981	1991	2002	2010
<b>Institutional</b>	<b>15.8</b>	<b>31.7</b>	<b>63.2</b>	<b>66.3</b>	<b>61.1</b>	<b>60.6</b>
Cooperatives and commercial Banks etc.	10.3	24.2	58.6	58.8	56.5	52.8
Govt. and other sources	5.5	7.5	4.6	7.5	4.6	7.8
<b>Non-institutional</b>	<b>84.2</b>	<b>68.3</b>	<b>36.8</b>	<b>30.6</b>	<b>38.9</b>	<b>37.7</b>
Money lenders	62	36.1	16.1	17.5	26.8	18.2
Others	22.2	32.2	20.7	13.1	12.1	19.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: *All-India Debt and Investment Survey for several years*



**Table-4 Financial Inclusion and Development Indicator**

Country	Composite Index of Financial Inclusion (per cent of population with access to financial services)	Poverty (per cent of population below poverty line)	Unemployment during 2000-04 (per cent) Annex - 2
India	48	26.0 (2003-04)	4.3
Bangladesh	32	49.8 (2000)	3.3
Brazil	43	22.0 (1998)	9.7
China	42	4.6 (1998)	4.0
Indonesia	40	27.1 (1999)	9.9
Malaysia	60	15.5 (1990)	3.5
Philippines	26	36.8 (1997)	9.8
Sri Lanka	59	25.0 (1996)	9.0
Thailand	59	9.0 (1998)	1.5

Source: World Bank (2006) and (2008)

**Table-5 Percentage of households without essential financial instruments**

	Without Bank Accounts	Without Life Insurance	Without Health Insurance
<b>Rural</b>	59.59	68.30	98.58
<b>Urban</b>	36.67	45.40	94.72
<b>All India</b>	52.41	61.10	97.39

Source: *IISS Survey*

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# ORGANIZATIONAL CULTURE & KNOWLEDGE MANAGEMENT

Dr. Kalpana Sahoo\*

## ABSTRACT

Organizations in the modern days are undergoing heavy transformation in the wake of industrialization and globalization. In the face of a globally expanding and highly competitive knowledge-based economy, the traditional organizations are highly seeking fundamental insights to help them nurture, harvest, and manage the immense potential of their knowledge assets for capability to excel at the leading edge of innovation. Industries are discovering their core competencies lie not in particular products category or services but in unique expertise in knowledge management system. However, knowledge management practices largely depend on the organizational culture where employees' willingness and commitment can create environment for knowledge sharing, storing and management. This paper highlights the extent to which the ways in which organizational culture can affect attitudes towards and participation in knowledge initiatives and secondly, the extent to which appropriate, positive knowledge cultures can be created by deliberate management efforts.

**Key Words:** Review of Literature on Knowledge Management, Organizational Culture, Culture & Knowledge Management, Creating appropriate culture for KM, Dimensions of KM, Innovation & Knowledge Processes

## Introduction:

In today's economy, knowledge is people, money, leverage, learning, flexibility, power, and competitive advantage. Knowledge is a multifaceted concept with multilayered meanings (Nonaka, 1994). Knowledge is dynamic and context-specific as it depends on a particular time and space (Nonaka *et al.* 2000), and there is a close connection between knowledge and action (Nonaka & Takeuchi, 1995). Davenport and Prusak's (1998) definition of knowledge is considered the most relevant for use in this study: Knowledge is a fluid mix of framed experiences, values, contextual information, and expert insight that provides a framework for evaluation and incorporating new experiences and information. A holistic view considers knowledge to be present in ideas, judgments, talents, root causes, relationships, perspectives and concepts. Knowledge is stored in the individual brain or encoded in organizational processes, documents, products, services, facilities and systems. The purpose of Knowledge Management (KM) is to facilitate the effective transfer of knowledge to members who have a need for it in carrying out their responsibilities and tasks within the organization. Other activities, such as capturing, storing and retrieving knowledge

and its metadata are merely instrumental to the core objective of transferring knowledge to members of the organization. Organizational knowledge is a concept with wide scope, involving both people and context (Davenport and Prusak, 1998). It also refers to organizational knowledge attached to artifacts and technical processes (Guzman and Wilson, 2005). Similarly, it is an organization's capability, evolved through time and the experience of its members that is unique to that collective (Tsoukas and Vladimirou, 2001). Knowledge management complements and enhances other organizational initiatives such as total quality management (TQM), business process re-engineering (BPR) and organizational learning, providing a new and urgent focus to sustain competitive position.

### Review of Literature on Knowledge Management:

Knowledge Management comprises a range of practices used by organizations to identify, create, represent, and distribute knowledge. Knowledge Management is a systematic and organized attempt to generate knowledge within an organization, which can transform its ability to store and use knowledge for improving performance (Shukla & Srinivasan, 2002). Knowledge Management is the formalization of access to experience, knowledge and expertise that create new capabilities, enable superior performance, encourage innovation and enhance the customer value. Many large companies have resources dedicated to Knowledge Management, often as a part of 'Information Technology' or 'Management'. The concept of Knowledge Management (KM) continues to evolve. A number of management theorists have contributed to the evolution of KM, such as Peter Drucker, Paul Strassmann, and Peter Senge in the United States. They have stressed the growing importance of information and explicit knowledge and learning organization. By the mid 1990's, KM initiatives were flourishing in the part of Internet. The International Knowledge Management Network (IKMN) began in Europe in 1989. So the field of Knowledge Management is little more than 10 years old. Scarbrough and Swan (2001) argue that the rise and growth of KM is one of the managerial responses to the empirical trends associated with globalization and post industrialism.

Knowledge Management (KM) is the collection of processes that govern the creation, dissemination and utilization of knowledge (Newman, 1991). Regardless of its evolution, KM is recognized as an important competitive factor for business worldwide (Martin, 2000; Nonaka & Takeuchi, 1995). Knowledge management (KM) is about developing, sharing and applying knowledge within the organization to gain and sustain a competitive advantage (Petersen & Poulsen, 2002). As knowledge is transformed from an individual to a collective state, organizational knowledge is created (Nonaka and Takeuchi 1995). If KM activities are not well-supported and rewarded by senior management, knowledge sharing will not occur (Davenport and Prusak, 1998). The level of support from senior management will determine the success or failure of KM practices (Yeh *et al.* 2006).

Nonaka & Takeuchi (1995) defined KM as the substantiated understandings and beliefs in an organization about the organization and its culture and environment. The literature revealed that organizations failed to consider the relationship between KM and organizational culture, and the cultural factors that impacted the effective KM initiatives. Just as KM is critical to an organizational competitive advantage, organization culture is critical to an organization's vision, mission, and execution of its business strategy, hence KM cannot be effectively addressed without addressing organizational culture. Tiwana (2002) defined Knowledge Management as a changing mix of worker's experience, values, expert insight, and environmental framework for evaluating and incorporating new experiences and information. It resides in the minds of the workers, but is often expressed in the culture of the organizations, including



its routines, processes, systems, and norms. So we need to understand the connotation of organizational culture where knowledge management can grow and develop.

### **Organizational Culture:**

Every organization has its own organizational culture and climate (Schien, 1992; McNabb & Sepice, 1995). Huczynski & Buchanan, (2001) defined effective organizational culture as the “collection of relatively uniform and enduring values, beliefs, customs, traditions and practices that share by an organization’s members. Organizational culture has been characterized as the “glue that holds organization together (Goffee & Jones, 1996). The role of culture of an organization has also achieved key importance in the literature of Knowledge Management. Knowledge accumulation and transfer occurs best at the point of contact where an organization’s culture of practice, interact with and strive to interpret the work environment. Organizational culture is an important factor for the success of KM. Culture can encourage openness, knowledge sharing and mutual support among employees, while generating attitudes like altruism, trust, error tolerance, and understanding.

Organizational culture can create positive or negative outcomes for individuals within the organization (Deal & Kennedy, 1992). Based on the definition of culture, the organization includes certain elements such as modes of communication, general management style, degree of formality in operating practices, all of which may affect attitudes and behaviours to knowledge management activities (Kim & Mauborgne, 1998). Sharing of knowledge in the formal organizational structure is invaluable. Informal situations, however, are often the milieus where new insights and creative problem solving occurs. It is in the informal settings, where people know and respect each other, exchange their individual intellectual abilities and contributions, that creativity and innovation thrive. According to Ash & Cohendet (2004), the process of creating, accumulating, and distributing knowledge is achieved through the functioning of informal groups of people, or autonomous “communities” acting under conditions of voluntary exchange and respect of the social norms that are defined within each group. Preiss (1999) reported that it has by now become the accepted norm that competitive advantage in business has moved from advantage in access to capital and in the ensuing process ability, whether the process is marketing, manufacturing or anything else, to advantage in knowledge management and innovation.

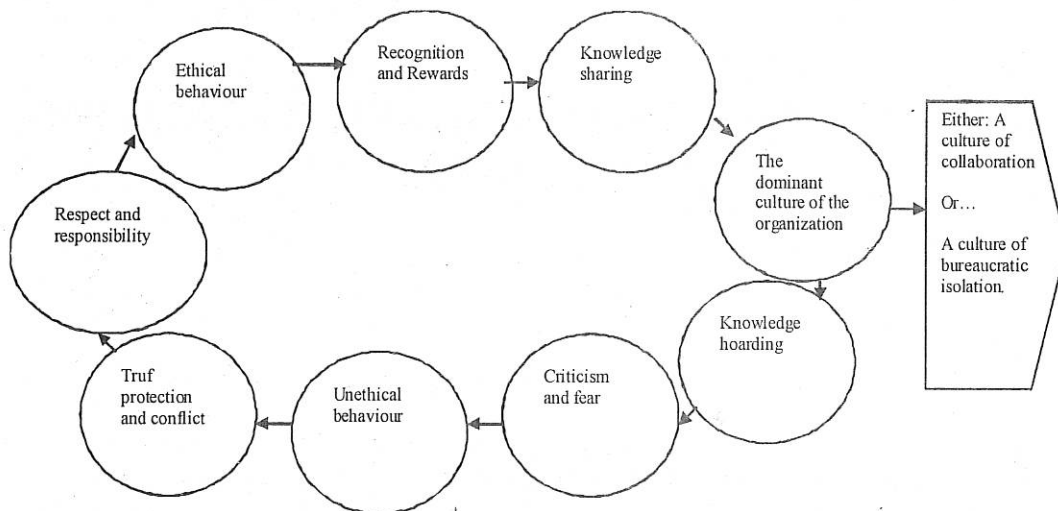
So, to what extent organizations taking decisions and deemed fair and the extent to which workers are involved in them, which represents a fundamental aspect of organizational culture. It can be crucial in shaping attitude to knowledge sharing. So implementing Knowledge Management, how much does an organization need to change its culture? Some people believe that a wholesale transformation is required in the way people work and act, but this is largely a myth. The fact is that successful knowledge management programs work with organizational cultures and behaviours, not against them (Burk, 1999).

### **Culture and Knowledge Management:**

The culture of an organization is shaped by its actions, operations, and relationships in an organization (Schein, 1992). An organizational culture is expressed in three levels of human behaviour and cognition:



what is created or produced, what is valued, and what are the group's basic beliefs or assumptions. The first level includes the way of using technology in the group, together with other patterns of behaviours among and between group members. Knowledge collection and sharing procedures and practices are part of the technology of KM. Sepic & McNabb(1992) tested a number of different scales to measure organizational culture in a large and diverse government agency. They found five construct contributed to organizational culture: organizational structure, role clarity, technology, social support and human interaction. For Nonaka and Takeuchi, knowledge management requires the development of enabling conditions that promote or stimulate knowledge creation.. Nonaka and Takeuchi (1995) discuss five enabling conditions as being particularly important. First, since the knowledge spiral is driven by organizational intention or aspirations, the organization needs to clearly conceptualize a **vision** about what kind of knowledge would be most valuable to realizing the organizational intention, and to apply this vision as the principal yardstick for judging the usefulness of new knowledge. Second, **organizational members**, either on their own or in self-organizing teams, should be given the freedom to act with autonomy so that they would motivate themselves to experiment and discover new knowledge. Third, the organization can stimulate the knowledge creation process by **inducing fluctuation** and creative chaos by for example, introducing breakdowns of set routines or habitual frameworks, evoking a sense of crisis, and stating ambiguous visions and goals. Fourth, **information** should be made available to organizational members who go beyond their immediate operational requirements. Information redundancy promotes the sharing of tacit knowledge, and the exchanging of ideas. Fifth, according to the principle of requisite variety, an organization's **internal diversity** must match the variety and complexity of its external environment. This implies that organizational members should have prompt access to a wide range of information so they can cope with fast-changing contingencies. Davenport and Prusak(1998) expand on the pragmatics of managing knowledge, and elaborate on the different types of projects that an organization might pursue. They distinguish between three types of projects. (1) Knowledge repositories that are aimed at capturing knowledge in documents and organizing them in a repository where it can be retrieved easily. (2) Knowledge access and transfer projects that link up people who possess knowledge and people who are prospective users of this knowledge. (3) Knowledge environment projects that include attempts to measure the value of knowledge capital, raising awareness and cultural receptivity, and changing behaviors that relate to knowledge. Culture will influence the procedures and performance of knowledge management. Cultures, which place importance on employee communication and interactions, are suitable for creating bottom to top distributed knowledge management systems. On the other hand, cultures, which emphasize authority and utilize information systems as the primary communication channel, are suitable for establishing top to bottom centralized knowledge management systems. It can also encourage employees to make effective innovations, dissemination, and applications of knowledge and also to take their internally stable knowledge and transform it into effective wisdom about knowledge management, which is favorable to organizations. It increasingly has received the attention and been looked upon as important by scholars and professionals. An organizational culture is "a way a group perceives thinks and feels in relation to problem.



Reichers & Schneider (1990) identified structure, rewards, and warmth and support as the fundamental dimension of organizational climate. These are the factors related with job satisfaction and dissatisfaction which is linked with Knowledge Management. Similarly, organizational policies and programmes reflect the culture. Thompson & Luthans (1990) suggest that the policies and practices that organizations establish and follow must be consistent with the desired change and create a trust climate for the workers. However; employees share their knowledge and experience when they are rewarded with appropriate incentives. Then only we can create knowledge culture in the organizations. An important step in a KM programme is to put in place a KM strategy that is in line with business goals. Two very different KM strategies have been proposed: codification and personalization (Hansen *et al.* 1999). A codification strategy uses technology and knowledge capture. Knowledge will be codified and stored in common repositories that are accessed and used by the organization. A personalization strategy facilitates knowledge sharing through direct individual contacts. Effective KM requires a supportive collaborative culture. If there is no such culture, organizations must take steps to create one (Davenport *et al.* 1997). Corporate culture not only defines the value of knowledge and explains the advantage of knowledge-sharing, but it also influences the effort that the members of the organisation put towards knowledge-sharing (Yeh *et al.* 2006). Knowledge sharing requires stimulus and a functional company infrastructure to facilitate practice and ensure the success of a KM programme (O'Dell and Grayson, 1998).

#### Creating Appropriate Culture for Knowledge Management :

McDermott and O'Dell (2001) suggest that the reason why cultural issues are such a prominent reason for the failure of many of the earliest KM programme is that organizations have taken the completely wrong approach. The evidence suggests that the organizations which are successful with their KM programmes, "build their Km approach to fit their culture". This is because organizational culture is much more resilient than any KM programmes. Thus, organizations should attempt to save the culture to fit with their KM programmes. The success of such programmes is also predicted on organizations having suitable knowledge cultures in that place.



To align a KM with organizational culture, it is necessary to link it to both the visible and invisible elements of the culture. In terms of visible elements, the KM programmes need to be focused on addressing existing business problems, need to match the existing style of the organization (the degree of bureaucratic rigidity) & that reward and appraisal system should make visible the importance of appropriate knowledge behaviour. In terms of the invisible aspects of the organizational culture, KM should reflect existing core values and existing networks of social relations.

**Figure 2: Linking KM Programmes to Organizational Culture**

Visible elements of culture	Invisible elements of culture
KM initiatives should link to existing business problems	KM initiatives should link to core organizational values.
KM initiatives should reflect existing organizational style	KM initiatives should link into existing networks of social relations.
HR practices should link to appropriate knowledge behaviour	

**Adopted from McDermott and O'Dell (2001)**

Contrary to McDermott & O'Dell (2001), Scarbrough & Swan (2001) argue that appropriate knowledge cultures can be developed. It can be created a culture of trust encouraging active knowledge-sharing across time and space among all of the company's employees across the world where the role of the leader is much more important.

Garvey and Williamson (2002) suggest that the first step in being knowledge productive is for workers to develop a critical sense of self awareness. However, there is also a fundamentally important role that organizations can play in creating a corporate curriculum that is supportive of such modes of thinking learning and working. High levels of learning productivity are likely when people are able to modify, update, and transform existing knowledge through a process of critical reflection, dialogue, and experimentation. Such circumstances create the potential for open, critical dialogues through which perspective making and taking is likely to occur, and which provides circumstances favorable to deep-rooted knowledge sharing and learning.

Organizations must ensure that culture, climate, policies are in harmony as the first step in laying groundwork for implanting a KM Programme.. Davenport & Prusak (1998) addressed that there are factors in organizational cultures, which will suppress the effective development of knowledge management

#### **Dimensions of Knowledge Management:**

Knowledge has a wide spectrum of meanings and attributions. It is enacted, retrospective, tacit, explicit, structured, socially constructed, useful, goal referenced and culturally based, just to mention a few

attributes. The thing that makes this perplexing is that, at times, they are all accurate in their portrayal of organizational knowledge.

In 1995, Nonaka coined the terms *tacit knowledge* and *explicit knowledge* as the two main types of human knowledge. The key to knowledge creation lies in the way it is mobilized and converted through technology. In this classification, *explicit knowledge* is considered to be formal and objective, and can be expressed unambiguously in words, numbers and specifications. Hence, it can be transferred via formal and systematic methods in the form of official statements, rules and procedures and so is easy to codify. *Tacit knowledge*, by contrast, is subjective, situational and intimately tied to the knower's experience. Thus, it is difficult to formalize, document and communicate to others. Insights, intuition, beliefs, personal skills and craft and using rule-of-thumb to solve a complex problem are examples of tacit knowledge (Hunter *et al.* 2002).

- **Tacit to tacit communication** (Socialization): Takes place between people in meetings or in team discussions.
- **Tacit to explicit communication** (Externalization): Articulation among people through dialogues (e.g., brainstorming).
- **Explicit to explicit communication** (Communication): This transformation phase can be best supported by technology. Explicit knowledge can be easily captured and then distributed/transmitted to worldwide audience.
- **Explicit to tacit communication** (internalization) internalization process transfers organization and group explicit knowledge to the individual.

### Innovation and Knowledge Processes

It is quite controversial to suggest that innovation processes are fundamentally knowledge processes, involving the creation, utilization, management, and manipulation of knowledge. This is done through knowledge creation. A number of scholars believe that when developing knowledge management systems, because of different organizational cultures, there will be variations in planning the processes of obtaining, innovating, storing, and proliferation of knowledge. Rogers (1983) took the position that organizations hope to increase their competitive abilities and operational performance, and they must establish an open culture with incentives for innovation and courage to shoulder reasonable risks.

### Tacit Knowledge and Knowledge Creation

Nonaka and Takeuchi (1995) argued that a successful KM programme needs, on the one hand, to convert internalized tacit knowledge into explicit codified knowledge in order to share it, but, on the other hand, it also must permit individuals and groups to internalize and make personally meaningful codified knowledge they have retrieved from the KM system.

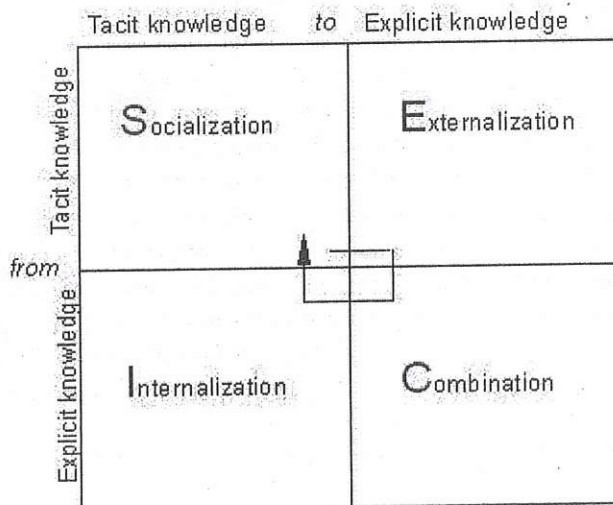


The focus upon codification and management of explicit knowledge has allowed knowledge management practitioners to appropriate prior work in information management, leading to the frequent accusation that knowledge management is simply a repackaged form of information management.

Critics have argued that Nonaka and Takeuchi's distinction between tacit and explicit knowledge is oversimplified and that the notion of explicit knowledge is self-contradictory. Specifically, for knowledge to be made explicit, it must be translated into information (i.e., symbols outside of our heads).

It is also common to distinguish between the creation of "new knowledge" (i.e., innovation) vs. the transfer of "established knowledge" within a group, organization, or community. Collaborative environments such as communities of practice or the use of social computing tools can be used for both creation and transfer. Nonaka and Takeuchi conceptualize the importance of tacit knowledge. For them, the tacit knowledge of individuals lies at the heart and is the prime mover of knowledge creation in organizations. They focus on how organizations can capture, codify and transfer knowledge, with a particular emphasis on knowledge sharing. Nonaka and Takeuchi concentrate on knowledge creation, and explain why organizational knowledge creation as a phenomenon has not been examined before in management research: "There is a reason why Western observers tend not to address the issue of organizational knowledge creation. They take for granted a view of the organization as a machine for "information processing." Japanese companies have a very different understanding of knowledge. They recognize that the knowledge expressed in words and numbers represents only the tip of the iceberg. They view knowledge as being primarily "tacit" – something not easily visible and expressible. Tacit knowledge is highly personal and hard to formalize, making it difficult to communicate or to share with others. (Nonaka & Takeuchi, 1995). That's why, they developed SECI model for knowledge creation.

**Figure 3: Explicit and tacit knowledge management processes (SECI MODEL)**



Adapted from Nonaka & Takeuchi (1995)

Later refining SECI model (Nonaka et. al 2001) states that the knowledge assets of an organization are mobilized and shared in “Ba”. The concept of “Ba” is itself very abstract, originated from Japanese language. It does not have an exact translation in English, but can be defined as a mutual context in which knowledge is created, shared and utilized through interaction. Explaining “Ba” further is categorized into four types, each one related to specific mode of knowledge creation. First, experiential knowledge assets, second, conceptual knowledge assets, third, routine knowledge assets and the last one is systematic knowledge assets. Thus, knowledge is created through individuals collectively bringing together their specific knowledge assets, within particular contexts (ba). With this, contributing to the creation of knowledge through the interaction and conversion between tacit and explicit knowledge asset, four modes in which organizational knowledge can be created: **socialization, externalization, combination, and internalization** (Nonaka & Takeuchi, 1995).

**Socialization** is a process of acquiring tacit knowledge through sharing experiences. Socialization is a process of sharing experience and thereby creating tacit knowledge. The process that transfers tacit knowledge in one person to tacit knowledge in another person is socialization. It is experiential, active and a “living thing,” involving capturing knowledge by walking around and through direct interaction with customers and suppliers outside the organization and people inside the organization. This depends on having shared experience, and results in acquired skills and common mental models. Socialization is primarily a process between individuals. As apprentices learn the craft of their masters through observation, imitation, and practice, so do employees of a firm learn new skills through on-the-job training. Once an individual has attained tacit knowledge she/he can pass that knowledge to others by Externalization. Externalization is a process of articulating tacit knowledge into explicit concepts. It should be noted that there would always be a large amount of knowledge present in tacit domain, which cannot be made explicit.

**Externalization** is a process of converting tacit knowledge into explicit concepts through the use of abstractions, metaphors, analogies, or models. A second case is eliciting and translating the tacit knowledge of others - customer, experts for example - into a readily understandable form, e.g., explicit knowledge. Dialogue is an important means for both. During such face-to-face communication people share beliefs and learn how to better articulate their thinking, though instantaneous feedback and the simultaneous exchange of ideas. Externalization is a process among individuals within a group. The externalization of tacit knowledge is the essential knowledge-creation activity and is most often seen during the concept creation phase of new product development. Externalization can also be triggered by dialogue or collective reflection.

**Combination** is a process of creating explicit knowledge by bringing together explicit knowledge from a number of sources. Thus, individuals exchange and combine their explicit knowledge through telephone conversations, meetings, memos, and so on. Existing information in computerized databases may be categorized, collated, and sorted in a number of ways to produce new explicit knowledge. Once knowledge is explicit, it can be transferred as explicit knowledge through a process Nonaka calls **combination**. This is the area where information technology is most helpful, because explicit knowledge can be conveyed in documents, email, data bases, as well as through meetings and briefings. The key steps for collecting relevant internal and external knowledge, dissemination, and editing/processing to make it more usable. Combination allows knowledge transfer among groups across organizations.



Finally, **Explicit to tacit communication (internalization)** is a process of embodying explicit knowledge into tacit knowledge, internalizing the experiences gained through the other modes of knowledge creation into individuals' tacit knowledge bases in the form of shared mental models or work practices. This implies taking explicit knowledge (e.g., a report) and deducing new ideas or taking constructive action. One significant goal of knowledge management is to create technology to help the users to derive tacit knowledge from explicit knowledge. Nonaka & Takeuchi (1995) suggest that the production of new knowledge involves "a process that 'organizationally' amplifies the knowledge created by individuals and crystallizes it as a part of the knowledge network of the organization". Two sets of activities drive the process of knowledge amplification: (1) converting tacit knowledge into explicit knowledge; and (2) moving knowledge from the individual level to the group, organizational, and inter-organizational levels. The process grows like a spiral as the dance between tacit and explicit knowledge takes place at higher and higher levels of the organization. Internalization is facilitated if the knowledge is captured in documents or conveyed in the form of stories, so that individuals may re-experience indirectly the experience of others. Matsushita's home bakery product was a great success. It sold a record 536,000 units in its first year, topped the list of Mother's Day gifts, and was featured in a 1987 issue of Fortune magazine. The success story was disseminated throughout Matsushita by word of mouth and in-house publications, changing employees' perceptions about the potential of home appliances and inspiring them to develop other innovative products.

Thus, the internalization process transfers organization and group explicit knowledge to the individual. According to Nonaka, it can be Physical – office Virtual - email, teleconferencing, Mental - shared experiences, ideas, beliefs and Relationship - people sharing common goals. Different kinds of spaces are conducive to the activities in each of the four knowledge transitions..

### Conclusion:

In today's global environment where knowledge has to cross national boundaries, there is an urgent need to understand the influence of cultures in the organizational processes of knowledge creation and transfer. Nonaka & Takeuchi (1995) argue that the two Japanese intellectual traditions of "the oneness of humanity and nature" and "the oneness of body and mind" have led the Japanese to value the interaction between self and other. It is within this context that "the Japanese emphasize subjective knowledge and intuitive intelligence." They conclude that Western management practices are still dominated by the dualism between subject and object, mind and body, or mind and matter. Where the Japanese intellectual tradition, however, there is no such dichotomy, but it is mutually complementary. Both comparisons recognize that knowledge creation, sharing and use are inherently social activities that are embedded in a web of cultural norms and human relationships. The creation and utilization of knowledge takes place most effectively in groups and teams that share common purpose and beliefs. Thus, Davenport and Prusak write about the importance of "communities of practice," while Nonaka introduce the idea of "ba" or shared contexts for creating and sharing knowledge in a positive cultural context.

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## Managing Economic Activities of Slum Dwellers: A Study of Khurda District, Odisha

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### ABSTRACT

*Slums are a natural outgrowth of unequal unjust social system. The poor are hustled, to and fro, living a life of misery.. Slums are usually considered to be low-cost habitants of the marginalized people, mostly made up of make shift shelters, in overcrowded and unhealthy conditions on land "encroached" upon and worsened further by the lack of basic civic amenities. Slums are also temporal and material space for the poor rural masses in India. The outgrowth of slums in India is the fall out of poverty and deprivation. A slum is viewed as a cancer in a city. Majority of the slum dwellers are engaged in informal sector. While wage is not significantly low, but the availability of the work is very less that brings the household income below the poverty line in two thirds of the households this has some obvious implications. The purpose of this study is to examine the economic activities of the slum dwellers as well as their socio economic profiles. The study classifies slum dwellers in to different caste wise. The study is based upon the compilation and critical analysis of a board spectrum of information. Primary data is collected from 500 household of slum dweller on a sample basis through a structured questionnaire. The sources of secondary data are report/document etc. of government of odisha, Bhubaneswar Municipal Corporation, NACs of Jatni and Khurdha.*

Key words: Informal Sector, Slum, Poverty.

### INTRODUCTION

The term slum is always relative. It cannotes the worst structural and sanitary conditions and the most degraded occupation usually by the lower income group of any given period.

A major characteristic of the slum is that they resemble rural centers in an urban milieu. They began as "entry points" for immigrants to the city, and tended to duplicate the closeness and structuring of social life in the village, even reflecting the earlier occupational background of the dwellers. In contrast to the village, however there is overcrowding. The bustee exemplifies "entry areas" for many thousands of land-less peasants who have been squeezed from their rural abodes. They afford them shelter in the city in their attempt to escape the tyrannies of the money lender and the feudal system that would make "beggar" workers of them. This "entry" characteristics of the bustle was, of course more true of the past than of present. At present the dearth of opportunities and other limiting factors have made bustle dwellers stick to the available shelter and to the economic opportunities around it. The bustle therefore, now constitutes the last ditch in their struggle for existence.

On the basis of observational attributes a slum can be defined as follows: "A slum is a heavily congested and often poorly built temporary human settlement, mostly with no security of tenure and prone to antisocial activities, which is characterized by a shortage of safe drinking water, inadequate power supply, lack of proper sanitation and scarce medical and social facilities"

Quantitatively, human destiny per square meter in slum is much higher than the recommended standards. The settlements are mostly erected using plastic sheets, mud walls, fin sheet or card boards which often leak during rain and are very risky in case of fire.

Slums will remain an integral part of urban life for the foreseeable future. Millions of rural poor will continue to flood in to the cities in search of employment and to live in their slums until 1) India reaches a higher stage of economic development at which per capita income much higher than it is present. 2) There is equitable distribution of income so that rural and urban poverty is sharply reduced. 3) Massive public housing programs are implemented to provide housing to the poor.

The present purpose of our study is to examine the factors which attract slum dwellers to settle in slums and to know their economic activities as well as their socioeconomic profiles.

The present study has been schematized into four sections. Section I encompasses introduction, review of literature, issues, objectives and hypothesis of the study. Section II presents methodology and coverage of the study. Section III incorporates genesis of the survey of the slum households. Section IV focuses on major findings and policy paradigms to develop the socio-economic conditions of slum dwellers.

#### **REVIEW OF LITERATURE**

Patel, Joshi, Ballaney & Nohn (2011) acknowledges the importance of tenure history and upholds formal and informal rights of Landowners, Communities and the Government. It describes a network of local, state and national agencies for rapidly structuring and implementing slum planning schemes, promising rapid and sustainable improvement and integration of slum communities within the formal city. The urgency to scale up slums-improvement and integration programs makes it imperative that SPS institutional structure be highly decentralized. Decentralization will better allow the use of detailed local knowledge, encourage the structuring of locally suited SPSs and make it possible to mount the levels of effort required to tackle the slum problem in Indian cities. Mitra (2010) deals with significance of social capital. The concept of 'Social capital' provides substantive basis to the understanding of how the urban labour markets in developing countries function. Relating to social



capital (conceptualized in terms of various social networks), the study notes its significant roles in providing job market information to low income householders in urban areas. In accessing the minimum source of livelihood, social contacts are indeed helpful to the bulk of the workers engaged in the lower rungs of the internal sector.

Mitra (1994) examines the pattern of urbanization particularly city growth in India, employment structure in the cities, impact of rural urban population movement on the urban informal sector, interlink ages between rural and urban poverty, incidence of slum population and shortage of basic amenities in various cities and the residual absorption of slum inhabitants in low productivity activities. In order to tackle these problems it reinforces the importance of productive employment generation in the urban areas. Mohapatra (2009) deals with causes and motives of rural urban migration in general and growth of slums in Bhubaneswar, the capital of Orissa in particular. It shows that the economic conditions of slum dwellers mostly scheduled caste and scheduled tribes in Bhubaneswar have improved after their migration from their native places. Finding of his study suggest that the “push” factors in the rural areas rather than “pull” factors constitute that main factor in the process of rural urban migration and creation of slums in the urban areas.

Thus, there is dearth of studies on economics activities of slum dweller. No serious study on slum's economy culture has been undertaken and completed. In view of this, our study will try to focus on the socio-economic activities of slum dwellers and affect of various government programs targeting the slum areas.

### ISSUES

In fact, there can be no doubt that dire poverty compels people to be slum dwellers but it is not true that all the slum dwellers are poor. Except the poverty, there are also various factors that govern the growth of slums. To explore these, various issues/questions will be raised such as:

- (i) What are the economic activities, slum dwellers engaged most? How they operate in their economic activities?
- (ii) What are the government programs for slum dwellers?
- (iii) The Govt. programs fulfill its objectives or not?
- (iv) Are the slum dwellers natives or migrants? If they are migrants what are their origins?

In view of the above issues and questions raised, the main objectives of the study will be:

### OBJECTIVES

The present study has been placed within the general context of the systematic deprivation of marginalized communities in urban area, keeping the following objectives in focus.

- i. To study various types of economic activities undertaken by the slum dwellers of Khurda district and how they operate.
- ii. To critically analyze the income/growth/turnover of their economic activities.
- iii. To study the various government programmes in their origin and destination and how it helps their economic activities.

- iv. To suggest measures for improvement of socio-economic conditions of slum dwellers.

### **HYPOTHESIS**

The proposed study will test the following hypothesis:

- (i) More number of slum dwellers are engaged in informal sectors than formal sector..
- (ii) The income of unauthorized slums dwellers is more than resettlement and village slum dwellers.
- (iii) The success of government programmes targeting slum dwellers is very less.
- (iv) The borrowing of others (higher caste) is more than schedule caste, schedule tribe and other backward class.

### **RESEARCH METHODOLOGY**

The present study has attempted to strike a balance between an objective and subjective approach in analyzing the economic activities of the slum dwellers. The analysis is mainly based on a field survey conducted in 500 households. In order to have a representative sample, attention has been given to include households engaged in different economic activities like casual worker or permanent worker in formal or informal sector, self employed and enterprises. The selection of the slums is done purposefully. The economically active population among the slum dwellers in Khurda district was considered as the universe. For intensive and reliable investigation within available time a small sample is drawn. For this, ten slums have been selected on the basis of socio-economic indicators, the geographical location of the slum, the age of the slum, the nature of the slum etc. The selection of households is done on the basis of simple random sampling method and ten per cent of the households located in each of these slums are selected. Within the slum, care has been taken that major colonies within a given slum get the representation on the basis of their population share.

Before the finalization of the sample size and the questionnaire schedule a pre-testing was carried out in eight slums (ten households per slum). The final design was arrived at after such pre-testing. The questionnaire itself was obtained detailed information about all members of the households. Apart from the households section, the questionnaire had separate sections for each of the wage employees, self employed, unpaid workers, unemployed.

#### *Some preliminary observations from the field*

It was observed during the course of the field work that the slum dwellers are settled in certain typical locations like railway tracks, below flyovers and bridges, adjacent to new housing colony around markets. These location choices may be due to two major concerns (i) to flock around areas where employment opportunities are more (ii) the temporary housing arrangement by builders and other authority give them scope to remain settled there even if after completion of the specific project. These concerns are largely related to the fact that most of the migrants are illegal occupants of land and a large number of them are forced to migrate for the prospects of getting some form of employment in the city.

### **ANALYSIS OF THE STUDY**

In the succeeding chapters we shall discuss primarily the survey results which have emerged out of the study.

#### **Slum Households (Geographical Coverage of the Study)**

Five hundred slum dwelling households studied in this sample constitute about two thousand and five hundred population with an average size of household of 4.94. However, there are around 377 slums in Bhubaneswar and 21 slums in Jatni having total population of more than 2 laces. The percentage share of informal sector workers is higher than that of formal sector workers in the towns and the former is gradually increasing from 75.46 percent in 1981 to 83.74 percent in 2001 and further to 86.27 percent in

2011. The informal sector workers particularly construction workers and trolley pullers mostly reside in slums and are migrants. Approximately 8 percentages of slum dwellers are self employed engaging in manufacturing, engaging in manufacturing, trade, transport and other activities. The slums selected for the study are:

- Sikharchandi
- Salia Sahi
- Kalaraputu Baste
- Telegu basti Saheed Nagar
- Mundia Sahi, Jatni
- Radha Krishna Baste
- Kela Baste
- Adarsha Baste
- Mahinisikhala
- Sandha Baste

Let us analyze annual income, annual expenditure, annual saving and annual debt of slum dwellers respectively which reflects socio-economic conditions of slum dwellers. To know the trend of their socio-economic status, consecutively 2008-2011 data are collected and analyzed.

#### ANNUAL INCOME

The trend of annual average income during 2008-2011 on the basis of caste of respondents will be investigated. The results have been arranged in Table-1.

**Table 1: Trend of caste-wise average annual income of respondents during the period 2008-2011.**  
(in Rupees)

Year Types of Slums		2008	2009	2010	2011
Unauthorised	SC	33937.50	36312.50	52073.75	46225.81
	ST	39666.67	42264.71	44877.78	48741.18
	OBC	38009.80	42156.00	49984.31	58590.20
	SEBC	52571.43	57946.67	62453.33	62560.00
	Others -	53716.07	53896.72	61539.34	71829.51
	Total	44583.95	45824.00	54881.69	60398.29
Resettlement	SC	30200.00	33100.00	40680.00	45000.00
	ST	31666.67	34800.00	42400.00	50000.00
	OBC	30210.53	42600.00	46189.47	52042.11
	SEBC	34333.33	47800.00	53000.00	60000.00
	Others	30500.00	36600.00	47250.00	55500.00
	Total	30938.78	41944.68	43420.41	51036.73
Village	SC	18000.00	26716.67	26800.00	33800.00
	ST	16500.00	34000.00	34800.00	40800.00
	OBC	24000.00	28000.00	30000.00	36000.00
	SEBC	22000.00	26000.00	29000.00	31000.00
	Others	20000.00	28000.00	32000.00	36000.00
	Total	18777.78	27518.52	28133.33	34933.33
Total	SC	27379.17	32043.06	39851.25	41675.27
	ST	29277.78	37021.57	40692.59	46513.73
	OBC	30740.11	37585.33	42057.93	48877.44
	SEBC	36301.59	43915.56	48151.11	51186.67
	Others	34738.69	39498.91	46929.78	54443.17
	Total	39635.81	43106.83	49807.35	55831.47

(Source: "own compilation")



The above Table-1 depicts that SC, ST, OBC, SEBC and other castes respondents living in unauthorized slums have annual average income range of 33937.50-46225.81, 39666.67-48741.18, 38009.80-58590.20, 52571.43-62560.00 and 53716.07-71829.51 respectively. All have annual increasing trend in average income. Similar trend is also observed in case of inhabitants of resettled slums with annual income range of 30200-45000, 31666.67-50000, 30210.53-52042.11, 34333.33-60000 and 30500-55500 for SC, ST, OBC, SEBC and other caste respectively. Like this, the average annual income of the respondents of SC, ST, OBC, SEBC from village slum lie within the ranges of 18000-33800, 16500-40800, 24000-36000, 22000-31000 and 28000-30000 respectively. In the next step, taking all the sample into consideration, the caste-wise annual average income comes to a minimum of 27379.17, 29277.78, 30740.11, 36301.59 and 34738.69 with a corresponding maximum of 41675.27, 46513.73, 48877.44, 51186.67 and 54443.17 for SC, ST, OBC, SEBC and others respectively. In all the cases cited above, the year-wise increasing trend is observed.

### ANNUAL EXPENDITURE

In the next step, the trend of annual average expenditure during 2008-2011 on the basis of caste of respondents will be investigated. The results have been arranged in Table-2.

**Table 2: Trend of caste-wise average annual expenditure of respondents during the period 2008-2011.**

(in Rupees)

Year Types of Slums		2008	2009	2010	2011
Unauthorised	SC	33075.00	33243.75	38309.38	45019.35
	ST	27111.11	31982.35	37733.33	44422.22
	OBC	28839.22	31482.35	36537.25	44417.65
	SEBC	42714.29	45800.00	47000.00	51293.33
	Others	44710.71	47783.61	49309.84	54395.08
	Total	38753.09	41618.75	44301.69	48568.18
Resettlement	SC	29000.00	30300.00	34580.00	41280.00
	ST	31166.67	33400.00	39933.33	48200.00
	OBC	29736.84	31094.74	38821.05	44505.26
	SEBC	34000.00	35720.00	36833.33	39800.00
	Others	29250.00	34400.00	38400.00	44750.00
	Total	30204.08	39854.17	44391.84	45314.29
Village	SC	15333.33	18960.00	27466.67	30400.00
	ST	18400.00	24100.00	28400.00	33654.00
	OBC	13500.00	24000.00	31000.00	34800.00
	SEBC	21000.00	24600.00	27000.00	30000.00
	Others	24163.00	27000.00	30654.00	32152.00
	Total	15555.56	20550.00	25377.78	31333.33
Total	SC	25802.77	27501.25	33312.48	38003.77
	ST	25559.26	29827.45	35355.55	42092.07
	OBC	24025.00	28870.27	35452.76	41247.30
	SEBC	32571.43	35390.00	36544.08	40443.48
	Others	37707.90	36394.53	39454.61	44765.69
	Total	27248.91	29238.31	36370.75	40088.89

(Source: "own compilation")

The above Table-2 depicts that SC, ST, OBC, SEBC and other castes respondents living in unauthorized slums have annual average expenditure range of 33075.00-45019.35, 27111.11-44422.22, 28839.22-44417.65, 42714.29-51293.33 and 44710.71-54395.08 respectively. All have annual increasing trend in average expenditure. Similar trend is also observed in case of inhabitants of resettled slums with annual expenditure range of 29000-41280, 31166.67-48200, 29736.84-44505.26, 34000.00-39800 and 29250-44750 for SC, ST, OBC, SEBC and other caste respectively. Further, the average annual expenditure of the respondents of SC, ST, OBC and SEBC from village slum lie within the ranges of 15333.33-30400, 18400-33654, 13500-34800, 21000-30000 and 24163-32152 respectively. In the next step, taking all the sample into consideration, the caste-wise annual average expenditure comes to a minimum of 25802.77, 25559.26, 24025.00, 32571.43 and 37707.90 with a corresponding maximum of 38003.77, 42092.07, 41247.30, 40443.48 and 44765.69 for SC, ST, OBC, SEBC and others respectively. In all the cases cited above, the year-wise increasing trend is observed.

### ANNUAL SAVINGS

In the next step, the trend of annual average savings during 2008-2011 on the basis of caste of respondents will be investigated. The results have been arranged in Table-3.

**Table 3: Trend of caste-wise average annual saving of respondents during the period 2008-2011.**

(in Rupees)

Year Types of Slums		2008	2009	2010	2011
Unauthorised	SC	3607.14	4633.33	4740.00	14438.89
	ST	15500.00	11016.67	9628.57	17333.33
	OBC	8334.29	8410.81	10309.76	14526.83
	SEBC	7600.00	8927.27	6981.82	17555.56
	Others	8774.47	11159.26	10647.27	14221.57
	Total	8246.43	9300.00	9324.11	14803.12
Resettlement	SC	2666.67	8725.00	6240.00	4800.00
	ST	1250.00	1675.00	1800.00	3600.00
	OBC	2000.00	5935.71	4676.92	4911.11
	SEBC	3500.00	7800.00	3600.00	1800.00
	Others	2000.00	3180.00	3185.71	3566.67
	Total	2148.15	5386.21	4134.37	4208.00
Village	SC	4250.00	5314.29	6000.00	3250.00
	ST	3000.00	7203.00	4800.00	6600.00
	OBC	7000.00	7809.00	8129.29	9000.00
	SEBC	7060.00	7902.63	8324.31	9345.45
	Others	5120.00	6068.25	7561.28	8230.21
	Total	4285.71	6575.75	5760.00	3560.00
Total	SC	3507.94	6224.21	5660.00	7496.30
	ST	6583.33	6631.56	5409.52	9177.78
	OBC	5778.10	7385.17	7705.32	9479.31
	SEBC	6053.33	8209.97	6302.04	9567.00
	Others	5298.15	6802.50	7131.42	8672.81
	Total	6807.84	8412.50	8156.38	12222.62

(Source: "own compilation")

The above Table-3 depicts that SC, ST, OBC, SEBC and other castes respondents living in unauthorized slums have annual average savings range of 3607.14-14438.89, 15500-17333.33, 8334.29-14526.83, 7600-17555.56 and 8774.47-14221.57 respectively. All have annual increasing trend in average savings. Similar trend is also observed in case of inhabitants of resettled slums with annual savings range of 2667.67-4800, 1250-3600, 2000-4911.11, 3500-1800 and 2000-3566.67 for SC, ST, OBC, SEBC and other castes respectively. Further, the average annual savings of the respondents of SC, ST, OBC and SEBC from village slum lie within the ranges of 4250-3250, 3000-6600, 7000-9000 and 7060-9345.45 respectively. In the next step, taking all the sample into consideration, the caste-wise annual average expenditure comes to a minimum of 3507.94, 6583.33, 5778.10, 6053.33 and 5387.24 with a corresponding maximum of 7496.30, 9177.78, 9479.31, 9567.00 and 8894.12 for SC, ST, OBC, SEBC and others respectively. In all the cases cited above, the year-wise increasing trend in savings is observed.

### ANNUAL DEBT

In the next step, the trend of annual average debts during 2008-2011 on the basis of caste of respondents will be investigated. The results have been arranged in Table-4.

Table 4: Trend of caste-wise average annual debt of respondents during the period 2008-2011.

(in Rupees)

Year Types of Slums		2008	2009	2010	2011
Unauthorised	SC	3857.14	8333.33	10000.00	11333.33
	ST	3000.00	6500.00	7500.00	8700.00
	OBC	6100.00	7200.00	7500.00	8000.00
	SEBC	3000.00	3666.67	4000.00	6250.00
	Others	8250.00	9750.00	11000.00	15720.00
	Total	4562.50	7820.00	4222.22	7640.00
Resettlement	SC	2018.00	3690.00	6000.00	8431.33
	ST	1880.00	2609.00	5880.00	7416.43
	OBC	1333.33	3000.00	3200.00	5600.00
	SEBC	1666.67	3941.41	5800.19	6164.00
	Others	1000.00	3841.78	5617.18	6014.00
	Total	1250.00	1750.00	3600.00	1200.00
Village	SC	3000.00	5841.00	7600.00	8200.00
	ST	2808.18	4923.17	6816.00	7619.00
	OBC	2200.13	4800.00	6213.23	7260.00
	SEBC	3200.69	6823.13	7263.18	8319.19
	Others	2916.16	6413.13	6932.18	7960.19
	Total	2000.00			
Total	SC	2958.38	5954.78	7866.67	9321.55
	ST	2562.73	4677.39	6732.00	7911.81
	OBC	3211.15	5000.00	5637.74	6953.33
	SEBC	2622.45	4810.40	5687.79	6911.06
	Others	4055.39	6668.30	7849.79	9898.06
	Total	3240.74	6808.33	4160.00	7237.50

(Source: "own compilation")



The above Table-4 depicts that SC, ST, OBC, SEBC and other castes respondents living in unauthorized slums have annual average debts range of 3857.14-10333.33, 3000-6500, 6100-2000, 3000-6250 and 9250-8720 respectively. All have annual increasing trend in average debts. Similar trend is also observed in case of inhabitants of resettled slums with annual debts range of 2018-8431.33, 1880-7416.43, 1333.33-3200, 1666.67-6164 and 1000-6014 for SC, ST, OBC, SEBC and other castes respectively. Further, the average annual debts of the respondents of SC, ST, OBC, SEBC and others from village slum lie within the ranges of 3000-8200, 2808.18-7619, 2200.13-7260, 3200.69-8319.19 and 2916.16-7960.19 respectively. In the next step, taking all sample into consideration, the caste-wise annual average debt comes to a minimum of 2958.38, 2562.73, 3211.15, 2622.45 and 4055.39 with corresponding maximum of 9321.55, 7911.81, 6953.33, 6911.06 and 9898.06 for SC, ST, OBC, SEBC and others respectively. In all the cases cited above, the year-wise increasing trend in savings is observed.

## FINDINGS

- Vulnerability of the poor is largely due to under employment, and low returns to labour, rather than open unemployment, since the poor would undertake any available economic activities regardless of pay and working conditions.
- The income level of ST is comparatively higher than SC and OBC.
- Khurda district, particularly Bhubaneswar is one of the fast growing cities in India has lost its earlier planned status due to massive growth of slum dwelling population and the increased informal sector activities in recent years.
- Most of the wage employees (2/3<sup>rd</sup>) are engaged in construction and service/industry. The rest are engaged in manufacturing, trade and commerce, transport etc.
- The nature of these undertakings is such that nearly two-third of the employees engaged in informal sector and the remaining belong to private enterprises, government etc.
- All the wage employees in the sample were asked why they did not prefer to become self employed despite low earning. About forty percent mentioned financial limitation as the reason why they did not want to go into business on their own. But, more interestingly, thirty-seven percent did not wish to go in for such activities in any event. There is evidence of the slum dwelling wage employees being averse to taking risks. When asked if government could help them, seventy percent felt positively that it could.
- Most of the self employed are engaged in the trading, food products and the manufacturing sector. About two-thirds of them serve their fellow slum dwellers and only one-third are linked with the outside market. About half of them earn less than the average monthly wages of wage employees and nearly forty percent of them were unemployed for a long time before becoming self employed.

- Some of the self employed who have hired wage employees (small capitalist producer) working for them earn nearly double the mean wages. They are mostly linked with the manufacturing and other similar set ups.
- Poverty is related to unequal access to employment opportunities in the labour market. Only a small fraction of workforce has regular full time wage jobs.
- Most of the slum population was mainly occupied in the informal sector or were self employed.

Within urban India, between 1981-2001 there was a 45% increase in the number of people living in the urban slum.

### POLICY IMPLEMENTATION

Though over 40 per cent of the Khurda population live in slums, scant attention has been given to the interests of these unfortunate groups of people by the public in general and the government agencies in particular. The slums are often projected as 'eye sores' to be cleared away under any pretext. Stereotyped notions about slums as areas of darkness, despair and poverty further aggravate the apathetic attitude towards slum dwellers by the general public. So far, the government has failed to come up with a proper action plan to improve the lot of the slum dwellers. Moreover, in recent years, there has been a reversal in slum related policy measures from one oriented at relocation and rehabilitation to one of eviction and demolition. Little attention is paid to the fact that the majority of slum inhabitants are migrants to the city who are in turn the victims of unbalanced growth processes, social injustice and inequalities. Here, the need for a holistic approach that takes into account the various dimensions: social, economic, political, cultural, etc., in framing any slum improvement policy/scheme ought to be stressed. Among the important factors that need to be taken care of in this context are:

- (a) Implementation of policies and programmes for the socio-economic upliftment of the socially marginalized sections of the population by the state with the active involvement of the civil society.
- (b) The strict enforcement of land reform measures in all the states and the proper implementation of employment schemes in the rural areas.
- (c) The gap between need of slum dwellers and the facilities provided by the govt should be narrowed down.
- (d) The rural development programs should be speeded up.
- (e) The incorporation of expenditure on slums as an item in the Central Government Budget and the allocation of funds to states for the implementation of slum development programmes.
- (f) Implementation of subsidized programmes for the educational upliftment of slum groups, particularly of those belonging to the marginalized sections, and for the provision of subsidized job oriented courses in the vicinity of the slums.

- (g) The proper implementation of minimum wages legislation and the amendment of laws to protect the workers in the unorganized sector from exploitation.
- (h) Provision of subsidized medical and educational institutions in the vicinity of the slums and providing the slum dwellers, including those migrants from across the borders, with ration cards. Provision of safe drinking water and electricity supply for the slum dwellers.
- (i) Providing the slum dwellers with easy accessibility to credit at subsidized rates of interest with proper monitoring in order to avoid default of payments.

### CONCLUSION

It is to be recognized that the slum problem is a national problem and its genesis is found in the structural inequalities of the society. Thus it requires a national policy and both the central and state governments must combine their effort in it. It should be accepted that the growth of the slums as fact of the inequal system and thus "Preventive and Curative" measures may be adopted. Preventive measures should include the socio-economic reforms ranging from land reforms to guaranteeing work in rural areas to regulating the concentration and growth of industries and evolving alternative towns and cities outside the metropolitan region. Evolving National town planning measures to formulating more practical and national master plans and curative measures should include, 'up gradation of existing slums, with the application of a long term environmental improvement programme to providing alternative sites and services programmes. It should range from provisions for alternative employment programmes to extension of integrated delivery systems to dispersed populations and encouragement of alternate settlements.

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# SUCCESSION PLANNING ISSUES AND STRATEGIES WITH SPECIAL REFERENCE TO INDIAN IT SECTOR

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## ABSTRACT

*Succession planning is probably an important human resources risk, by most of the companies in IT sector particularly. What is and how can succession planning help organizations? What are the reasons for its failure? Whatever be the methodology, measuring the effectiveness of a succession planning programme is critical to every organization, irrespective of its size. After all, it is more than just the passing of power and responsibility—it is about survival and continuity. This article brings into light the Indian practices in succession planning with case examples from Infosys and WIPRO. The article also explains the important issues involved in succession planning and how they have been managed by these Indian IT giants.*

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*Keywords: Succession Planning, Competencies, Key Positions, Job Profile, Competency Gap*

**Leaders need to manage the change with sensitivity and confidence.**

**—Azim Premji, Chairman, Wipro Industries**

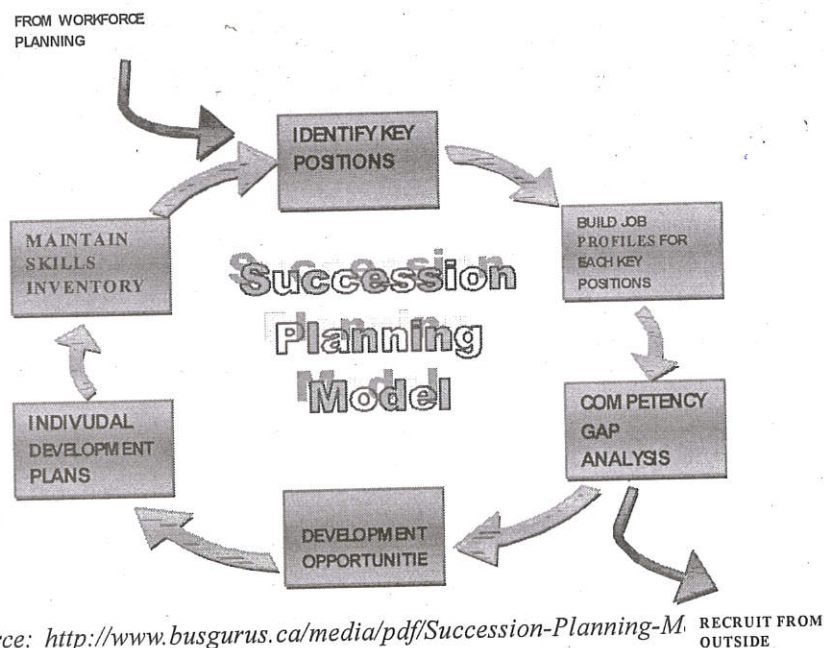
## 1. Introduction

In India, composition and succession on company boards has traditionally been driven by compliance with governance statutes, defeating the very purpose of the exercise, which is to build an active, effective board capable of giving direction to management on strategic issues. The last decade has seen a transition in this area, with forward-looking companies wanting to construct boards that comprise individuals with the right 'fit' who are able to contribute constructively to have discussion in the boardroom. However, the percentage of listed companies with such boards in India is still small, and a lot more needs to be done to make board succession a strategic exercise. Succession planning is an important issue for any organization. This is useful not only for senior executive, a chief executive officer (CEO) but also for other managerial positions. Organization should create succession plans for their CEOs before moving on to other senior managers. Succession plans for middle managers are often more accurately described by the term career planning. A key difference between succession and career planning is the focus. Succession planning involves preparing a single, designated successor. In contrast career planning involves preparing several candidates for a single position.

### 1.1. Basic Principles of Successful Succession Planning

- Do not wait until the employee will be leaving. Start planning now. Succession planning is a matter of strong practices in personnel management, not a matter of sudden crisis management. Start attending to those practices now.
  - Focus on policies, procedures and practices, not on personalities.
  - Succession planning is being able to effectively and promptly re-fill a role, not replacing a certain person. Be sure all key positions are defined well, and then look to find the best person to fill the position. Do not look for someone who is just like, or a lot different than, the previous employee.
  - Succession planning is a responsibility of the management, not just the employee.
  - The best succession planning results from 1) a working partnership between management and employees to accurately define the employee's role and current priorities, and 2) the employee ensuring that management has the information and resources to refill the role.
  - Succession planning should be in accordance with up-to-date personnel policies.
- Quality in managing succession is proportionate to the quality of the new employee.  
The best way for management to promptly convey expectations of high quality to a new employee is to convey that high-quality in how the employee was hired.

### 1.2. Succession Planning Model



#### Step 1 – Identify Key Positions

Succession Planning identifies necessary competencies within key positions that have a significant impact on the organization. Criteria for key positions may include:



- Positions that require specialized job skills or expertise.
- High-level leadership positions.
- Positions that are considered “mission-critical” to the organization.

#### Step 2 – Build Job Profiles for each Key Position

Determine the key success factors of the job and how proficient the job holder would need to be. This information can be obtained several ways, including performing job analysis or gathering critical information during the performance appraisal process. The information that should be gathered includes the knowledge, skills, abilities, and attributes that the current employee in a position possesses that allow for the competent and efficient performance of the functions.

#### Step 3 – Competency Gap Analysis

- Using the job profile of competencies determine the tool required to gather data on current employee competencies for the key positions
- Analyze the difference between current employee competencies and future needs
- Document findings for development opportunities

#### Step 4 – Development Opportunities

- Assess the abilities and career interests of employees
- Candidates should demonstrate high potential or ability that will enable them to achieve success at a higher level within the organization. Preferably, the list of possible replacements should be stored in a database so that the organization can easily track candidates.

#### Step 5 – Individual Development Plans

- Design a plan for each candidate – developmental plans should be available for candidates and then incorporated into their performance management plans. Plans may include identifying career paths for high-potential candidates and others who have the interest and ability to move upward in the organization
- Provide development opportunities – This can be accomplished through job assignments, training, or job rotation, and it is one of the best ways for employees to gain additional knowledge and skills

#### Step 6 – Maintain Skills Inventory

- Continually monitor skills and needs to determine any gaps and develop plans to meet deficiencies
- Keep an inventory of current and future needs and maintain the information for individual and group development

## 2. Literature Review On Succession Planning

Succession planning is a process that helps to ensure the stability and tenure of personnel. It is perhaps best understood as any effort designed to ensure the continued effective performance of an organization, division, department or work group by making provision for the development, replacement and strategic

application of key people over time. Succession planning and management should support strategic planning and strategic thinking and should provide an essential starting point for management and employee development programs (Rothwell, 2001).

### *2.1. What is succession planning and some of its concepts?*

The Hagberg Consulting Group (1998) defines succession planning as, “..Dynamic, on-going process to systematically identifying, assessing, and developing leadership talent for future strategic tasks” (<http://www.succession-planning.com/key-lessons.html>). In the Executive Leadership text, the National Fire Academy defines succession planning as, “an organized and systematic way to ensure that employees in a particular organization are capable, competent and willing to replace and/or succeed to strategic roles within the organization (NFA Executive Leadership). Succession planning is more an art than a science and it should be dynamic and alive. (Cheloha, 2000) Succession planning has been a part of the business and leadership worlds for as long there have been the worlds of business and leadership-it just went by another name—“grooming.”

Beeson (2000) provides a prototypical view of what succession planning has looked like, and probably still looks like, in many organizations.

First, a younger member of the organization was identified as “having the right stuff” by organizational elders. The “chosen one,” or protégée, would then be placed under the guiding eye of a mentor, “the wise one,” who’s duty it would be to prepare the protégée for the day when he (the typical protégée would be male) would be ready to assume their position in the hierarchy of the organization. The mentor would be a trusted member of the organization who not only knew the technical aspects of the job, but was also well-versed in the informal aspects of the organization: office politics, unwritten rules, organizational values, rewards systems, etc. (p. 38)

Rothwell (1994) published a significant work on the subject of succession planning entitled, *Effective Succession Planning: Ensuring Leadership Continuity and Building Talent from Within*. Rothwell wrote that succession planning is “any effort designed to ensure the continued effective performance of an organization, division, department, or work group by making provision for the development and replacement of key people over time” (p.5) He provided further definition to the term: A means of identifying critical management positions, starting at the levels of project manager and supervisor and extending up to the highest position in the organization. Succession planning also describes management positions to provide maximum flexibility in lateral management moves to ensure that as individuals achieve greater seniority, their management skills will broaden and become more generalized in relation to total organizational objectives rather than to purely departmental objectives. (Rothwell, 1994, p.6) For many years any formalized succession plan in an organization, particularly a family owned and operated business, was usually done as preventive measure to minimize conflicts between heirs when the owner or CEO died and needed replacement. FEMA (2000) uses a case study of succession in a family owned business to very effectively make the case for succession planning for all organizations. “Succession planning is not just for family businesses; the continuing success of all endeavors depends on succession planning” (Leichtling, 2000, p. 44A).

Leichtling also wrote that succession planning, “is especially important in industries in which good people often change positions and companies” (p. 44A).

Byham (1999) wrote, "For decades organizations have used succession planning to find their next generation of leaders. Succession planning focused on defining successors for specific jobs" (p. 46). The author makes the case that in today's rapidly changing work environment such rigid planning is not practical, whereas it may have been when jobs were more static and employees, who typically stayed with the organization for their entire career, moved along defined career paths. Byham uses the phrase "succession management" to highlight the need for organizations to create pools of talented personnel from which it can fill specific leadership positions.

"Whereas succession planning focuses on identifying an individual for a specific job, 'succession management' focuses on creating and stocking pools of candidates with high leadership potential" (Byham, 1999, p. 46).

High performance companies in today's business world direct their efforts toward not just being able to replace the CEO, but having enough in-house talent to replace any leader at any level. Companies such as General Electric, with the greatest long-term success in filling positions at the apex of the organization, concentrate not only on CEO succession but also on building bench strength and a pipeline of talent throughout the managerial ranks. (Beeson, 1998, p. 61)

Succession planning involves more than just additional training for personnel. Succession planning takes a holistic approach that includes:

- Determining the extent of an organization's pending leadership shortage.
- Identifying needed executive competencies based on the organization's future business needs.
- Identifying high-potential individuals for inclusion in a pool.
- Assessing these individuals to identify strengths and skill gaps and to determine who will be in the high-potential pool.
- Establishing an individually tailored development program for each high-potential individual that includes training, job rotation, special assignments and mentoring by older senior executives.
- Selecting and placing people into senior jobs based on their job performance, their experience and assessment of their potential for a specific job.
- Continuous monitoring of the system and top management support. (Byham, 1999, p.47)

### 3. Succession Planning In Indian Organizations

The problems associated with succession planning are particularly acute in India, where family managed businesses proliferate. Such companies throw discretion to the winds and spend time on dividing the family silver among the next generation rather than in grooming the right person to take over the top job. Family managed companies would do well to remember that the chosen successor should have the necessary education and skills and be made to work his or her way up the management to gain the maturity needed to appreciate the privileges and responsibilities involved. Alternatively, they should be bold enough to appoint a professional manager, when there is no suitable candidate within the family. Some of the more progressive Indian business houses like Ranbaxy, the Murugappa group and the Eicher group have demonstrated a high degree of professionalism in this regard. Many Indian companies are now beginning to appreciate the importance of planning successions carefully. At L&T, one of India's leading engineering companies, many of the company's senior managers are expected to



retire in the first few years of the new millennium. CEO A M Naik has been attempting to deal with the situation, naming the top 10 percent of his executives as stars and chalking out a fast track career path for them. Naik hopes that by 2005 "L&T will be in strong hands". Before initiating the program, L&T employed the services of an HR consulting firm to list the positions falling vacant and the required competencies. L&T now fills vacant posts with internal candidates wherever possible. In some cases, however, it compares the internal candidate with an external candidate to judge his or her readiness to move into the new job. The problems which Indian companies face while managing succession planning are well illustrated by one of India's most people oriented employers, Thermax. The Pune based company has been known to take good care of its employees, making it a favorite employer among many of India's premier technical institutions. Yet, the company was facing a major crisis at the beginning of the new millennium. Roughly five years after founder Rohinton Agha passed away, the entire board of governors had to resign *en masse* as the company struggled to compete in a changing business environment. Thermax's market capitalization declined sharply from Rs.990 crore (on July 22, 1996) to Rs.186 crore (on April 4, 2000). Agha had nurtured and grown Thermax over a long period of time but had not paid enough attention to succession planning. His wife, Anu Agha recalled: "My husband was like an ostrich. He never liked to discuss anything. Once, he vaguely talked about taking over as non-executive chairperson. He didn't discuss a succession plan definitively. But since Abhay Nalwade was the only designated executive director, he appeared to be his obvious choice". Nalwade who was appointed as Managing Director after Agha's death recalled: "It was so sudden that I didn't have the time to think. I feel if succession had occurred systematically, it would have been better. Rohinton never discussed that I would be the successor he had in mind. It's one thing to be a peer and another to be a boss." Now a new Thermax board with company veteran, Prakash Kulkarni as managing director faces the challenge of giving the company a new direction.

### 3.1. Succession Planning in IT Organizations

Succession planning is an essential part of corporate strategy in most IT organizations. While the design of the succession chart looks good on paper, it has often been found that the planning process fails to meet requirements at the time of filling a key position that has just been vacated. It is not an easy task dealing with the ever-changing equations of the leadership pipeline. According to a report by US-based business research firm Cutting Edge, while many companies have succession plans, very few follow through with the rigorous implementation required. In fact, 70 percent of succession plans fail due to bad execution. Succession planning has to ensure that the right people with the right skills are in the right place at the right time. It can be done in three ways: role-based, individual-based and team-based. The first is about identifying key positions, the second focuses upon key people, and the last involves replacing a section of people or resources. One of the challenges in all organisations is planning for HR needs. It is essential to adopt a disciplined approach to match HR resources with the anticipated needs of an organisation. This includes aligning the succession planning process with business strategy. It is a known fact that while most management are interested in developing a pool of successors for key positions, they find it a difficult task to ensure the success of their efforts. Succession planning can get very complicated. Organisations must therefore have a clear focus. Organisations are less vulnerable to leadership crises when there's a shadow group of successors who are able and available to step into their shoes. Training plays a key role in succession planning. It is imperative to strategize, design and implement programmes to train future leaders.

“Most organisations do skill-gap analysis of the selected candidates. A schedule is drawn for the prospective individual to acquire the knowledge, skills and competencies within a time-frame,” says Sunder Rajan, General Manager, HR & Administration, ICS. He adds that the training could be through internal programmes or on-the-job (local as well as global) to gain cross-functional or cross-geographical exposure for better maturity of the expertise that would enhance the confidence level of the person.

#### 4. Cases Of IT Companies

##### 4.1. Succession planning at INFOSYS

Infosys is an information technology Services Company headquartered in Bangalore, India Infosys is one of the largest IT companies in India with 114, 822 employees (including subsidiaries) as of 2011. It has offices in 33 countries and development centres in India, China, Australia, UK, Canada and Japan. Infosys was founded on 2 July 1981 by seven entrepreneurs, N. R. Narayana Murthy, Nandan Nilekani, Kris Gopalakrishnan, S. D. Shibulal, K Dinesh and N. S. Raghavan. According to Forbes magazine, since listing on the Bombay Stock Exchange till the year 2000, Infosys' sales and earnings compounded at more than 70% a year. In 2001, it was rated Best Employer in India by Business Today.

A succession plan has long been put in place and the smooth transition of authority and leadership ensured. S Gopalakrishnan, S D Shibulal, and K Dinesh look after the affairs. N S Raghavan retired in 1999, while Ashok Arora had quit the firm much earlier, in 1989, to settle down in the United States. The IT major has already identified a pool of 400 leaders who will steer it in the future.

##### 4.1.1. *So how does Infosys groom its future leaders?*

The process is long-drawn, meticulous, and in consonance with the company's stated vision: 'To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people. This is where the Infosys Leadership Institute at the company's Mysore campus comes into the picture. The 162, 000 square feet structure, built at the cost of Rs 41.1 crore (Rs 411 million), is where the next generation of Infosys leaders is being primed.

“The company has identified 400 'leaders' on the basis of several parameters: their performance throughout their tenure with the company being a prime criterion for selection. The pool of 400 leaders,” says Gopalakrishnan, “that Infosys has identified is from across the globe and does not comprise Indians alone. It is in keeping with the company's multi-national, multi-cultural image where excellence is the most important condition.”

##### 4.1.2. *Three-tier mentoring process at Infosys*

Tier-1: Members of the Infosys Management Council, which consists of the company's board of directors. There are 45 members.

Tier-1 mentors Tier-2 leaders. Tier-2 leaders in turn guide the Tier-3 group. Each of the leaders undergoes exhaustive and sustained training through the company's personal development program (PDP).

##### 4.1.3. *Nine pillars for leadership development at Infosys*

- 360 degree feedback
- Development assignments
- Infosys Culture workshops

- Development relationships
- Leadership skills training
- Feedback intensive programs
- Systemic process learning
- Action learning
- Community empathy

#### 4.1.4. *Infosys Talent Edge's Succession Planning solution*

It is designed to help organizations determine successors for employees who play critical roles. The succession module enables users to develop and maintain succession plans for individual job codes, employees and positions. It also tracks and manages employees in talent pools. A user-friendly, graphical tool provides real-time visibility of incumbents, successors and relevant profile data. A configurable rating box tracks user-defined criteria such as performance, potential, and readiness. It rates talent pool members or successors using an intuitive graphical user interface with drag and drop capability. Succession planning is tightly integrated with profiles to search, match and identify potential successors. The Succession Planning solution leverages Oracle's PeopleSoft Enterprise Succession Planning which is as follows:

- **Succession 360°:** Succession 360 provides a graphical overview of the succession landscape surrounding or relating to people, positions and job codes of interest. It enables HR administration to visually review succession plans and make required changes.
- **Talent Pool:** Identifies, tracks, and manages key employees in talent pools.
- **Creates Succession Plans:** with multiple successors per individual, job and position
- **Configurable Rating Boxes:** Configurable X-Y grids for rating boxes (often designed as 9-box) track user-defined criteria such as performance, potential and readiness.
- **Search Feature:** Examines suitable successors and ranks them using suitability matching process and produces Nine Box matrix and compare profile report Searches among employees, applicants and contingent workers of the enterprise
- **Reports Generator:** Generates useful reports like Key Person/ Job Codes/ Positions report, Talent Pool Readiness report and Talent Pool Ratings Box report
- **Manager self-service:** Enables manager to review and edit succession plans of team members and direct reports

#### 4.1.5. *Infosys does the planning and implementation in the following way:*

- Develops and creates succession plans for individual employees, job codes, and positions
- Visibility of real-time hierarchical incumbents and successors, including relevant profile data (Succession 360°)



- Integrates with Profile Manager to match and identify skill gap between potential successors and incumbent or job profile
- Searches internal and external candidate pools
- Identifies talent gaps, understands talent needs and enables managers to identify courses and associated learning programs that need to be integrated into Learning Management System
- Engages managers and employees in succession management

Infosys' strategy for succession planning has been one of the most process-driven among IT firms in India. Its Leadership Institute in Mysore, set up in 2001 by N.R. Narayana Murthy when he realized that a number of young employees were diffident about voicing their ideas, has seen 800 people pass through it so far. Most of the top layer of management at Infosys today has attended the programme. Each management role in Infosys is linked by a feeder system to the next layer of potential leaders. "At the top is a pool of 300 people consisting of executive council members, senior vice-presidents and vice-presidents. For all vacancies in this level, internal job postings are floated," explains Mohandas Pai, outgoing head of human resources at Infosys. From a list of respondents, a panel headed by Pai and another member of the board, Srinath Batni, shortlists talent based on a set of traits. "As far as the board is concerned, the leadership pool comes from heads of business units who have an enterprise view, like the executive council," says Pai. The firm has classified leaders into three tiers with 50, 150 and 450 people at each level. The Leadership Institute follows what it calls the nine-pillar model, which offers these future leaders a 360-degree feedback, developmental assignments, culture workshops, and leadership skill training among others. The candidates are put through classes with leadership experts and tier-leaders, as well as virtual leadership scenarios where they can practice their skills in an artificial environment.

Some experts have observed that Infosys' leadership grooming process is primarily inward looking, even if highly successful. Priya Chetty-Rajagopal, partner and vice-president of executive search company Stanton Chase, says: "They have had the group of founders doing the round-robin. At the next level, there are some outstanding people who have been with the company for a long time, who will take over now. This system is an advantage because all of them are insiders who understand the DNA of the company and will keep it going." However Chetty-Rajagopal believes that Infosys will see a few lateral moves—leaders coming in from outside who will act as a counterpoint so that the firm does not become too inward-looking. She contrasts Infosys with firm like Cognizant which have seen a lot of talent coming from outside. Pai, however, dismisses the fact that Infosys has been inward looking. "This is not supported by statistics," he argues. "We bring in laterals all the time. Our head of product development today is a lateral hire and we have many country managers in France and Germany who have come in from outside." The only challenge, he says, is to find enough people who want to be leaders, because the process begins with volunteering for a role.

#### ***4.2. Succession planning at WIPRO***

Headquartered at Bangalore, India, we at Wipro implement the philosophy of 'Applying Thought', thereby helping clients to "Do Business Better". Our path breaking innovations and ideas have culminated into the 'Wipro Way' – a process which directly impacts customer benefits by improving time-to-market, enhancing predictability and reliability, and cutting costs. Wipro Global IT Business delivers winning business outcomes through its deep industry experience and a 360 degree view of "Business

through Technology” - helping clients create successful and adaptive businesses. A company recognized globally for its comprehensive portfolio of services, a practitioner’s approach to delivering innovation and an organization wide commitment to sustainability, Wipro Technologies has over 130,000 employees and clients across 54 countries.

Leadership at Wipro means the ability to win the hearts and minds of all our stakeholders whether internal or external. It means leading others with humility and yet having big dreams. It means the self confidence to accept that you are wrong and resilient to fight back. Leaders also need to challenge themselves and their team members to surpass the best. The leaders need to manage change with sensitivity and confidence. Sensitivity towards building an organization where people dare to dream big and yet find their own path of reaching their goals. Leaders need to manage many elements that seem like contradictions – for instance, being able to think strategically and yet being able to operationally execute the plans by empowering people whether they are in their team of those who need to influence.

At Wipro, the foundation of talent and leadership identification is built on the group’s vision and goals and reflects individual and collective behavior that will help the organization achieve these goals. Critical roles are then identified within the organization to achieve those business objectives. Today, leadership and succession planning consists of a systematic 4-step process that is designed to align the organizational leadership and its skills with core corporate strategy and goals. At the outset, there is an articulation of the company’s central beliefs, values and strategic vision, followed by a clear definition of what collective behavior will help achieve the vision in a manner compatible to the core values. The next crucial step is to identify critical roles within the organization and create a process to ensure solid succession planning for those roles. The third step is to decide on the ‘build v/s acquire’ dilemma. Given Wipro’s scale, the decision is normally tilted towards building capability internally, but the company regularly brings in talent from the outside too, which creates an opportunity to get on board unique skills not available internally and also creates an opportunity to learn from other companies. Finally, Wipro has a very robust process called the Talent Review and Planning exercise that is conducted annually. In this process, all employees with managerial roles, approximately 12,000 globally, undergo a 360-degree assessment of their capabilities based on individual and collective behaviors that the organization has identified as key qualities for a leader.

In terms of career development, there is a clear linkage with opportunities for progression and growth for those in the talent pool. And in terms of leadership development and training, people identified in the leadership talent pool have access to leadership development programs — both in-house and global programs. Finally, people identified in the talent pool also have the opportunity to participate in strategic review meetings.

At Wipro, the succession planning starts with identification of suitable candidate through regular quarterly talent engagement and development (TED) reviews, and action plans of each business unit and vertical. Then feedbacks about these candidates are gathered. Wipro has developed “Life Cycle Stage Development Program”. Here the employees who are identified to have high leadership talent are given training according to their level in the organisation. There are different kinds of programmes targeted towards different levels. Wipro has programs like ‘entry level program’, ‘New leaders program’, ‘Wipro leader’s program’, ‘Business leaders program’ and ‘Strategic leaders program’.

### 5. Conclusion

Reviewing the succession plans in the IT organizations by managers and before reactively shedding staff, is one of the important needs to survive and prosper in the current challenge environment. Since succession planning and management become a process and system, no single model or approach can be suitable for different organizations and with different situations. There are many models and approaches in succession planning and management. The point of view is that among these models and approaches, managers have to find the best model or develop one which can fit best for their organizations. Those that already have a succession planning and management program just like the above two cases must focus to overcome their exclusive obstructions to a best practice system and those who do not presently invest in succession planning and management should perhaps consider its value and try to implement it. In India, the issue of CEO succession is more sensitive in the case of family-owned businesses which is evident in the above two cases. Hence, while building a succession strategy it is important to develop processes that draw on the inherent strengths of these businesses, and align them with corporate governance principles. Furthermore, succession needs to address the high mobility that is beginning to happen in Indian IT companies, particularly among younger people. This is bound to increase, not decrease, over time. The key challenge for companies is to implement succession planning in the context of this high level of mobility and enable transitions without disrupting operations. There is only a handful of family-owned companies that have understood the need to separate of ownership from management just like Infosys, and who have voluntarily separated share ownership from the control of the board to get the best successor to lead their organization.

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# FINANCIAL INCLUSION FOR SUSTAINABLE DEVELOPMENT: A study on promoting financial literacy in low income communities

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## ABSTRACT:

Financial inclusion has recently been emphasized as an important policy option aimed at alleviating poverty, minimizing social exclusion and enhancing economic growth. In this journal, review the growing interest in financial exclusion and inclusion and demonstrate their existence in developing and developed countries. The government of India & RBI has out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the access population. This paper seeks to provide evidence on impact of promoting financial inclusion on financial literacy in India. This paper studied secondary data to draw the conclusion. The alternative concept, financial literacy. Financial capability includes both the ability to act (knowledge, skills, confidence, and motivation) and the opportunity to act (through access to quality financial products and services). Low-income households, who face lack of financial knowledge and institutional barriers to participation in quality financial services, require both financial literacy and financial inclusion.

(Keywords: *Financial capability, Money Management, financial literacy, financial education, financial inclusion.*)

## INTRODUCTION

This report examines evidence from the academic and policy literature on the topic of financial literacy of low-income people. The purposes of the study are to provide a critical review of evidence about low-income and at-risk people on how their financial literacy is measured, what programs are used to promote their financial literacy, and what evaluations of the programs uncover about them. Finally, the study provides recommendations about how policies might be more supportive for building low-income people's financial literacy. Financial literacy has become a prominent concern among policymakers in the last five to ten years. The Indian economy continues to suffer from the problems of poverty. The importance of the study is to examine the economic development of the poor and low income groups with supporting financial literacy. Human imagination and creativity know no boundaries in how to overcome poverty. If they were all successful, the abolition of poverty might be in sight. However, only few of the many imaginable poverty reducing strategies are actually put to use, and most of those are incomplete in the sense that they are put only to partial use. Inclusive Growth is the word which is often heard and understood less by majority. I will not get into complex explanations of the above word meaning. In simple words Inclusive Growth by its very definition implies an equitable allocation of resources its benefits accruing to every section of society. In very simple words it nothing but all financial bodies coming together and spreading finance access to each and every corner of India. It does not mean opening bank account or making huge growth in disbursement of loans. It's the process of reaching financial weapons to all Indian across the country. In order to achieve financial inclusion, there needs to be a collective and timely action by all players in the financial sector. The players include



the Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), banks, regional rural banks, cooperatives and micro-finance institutions. Lack of resources is the reason most often mentioned. Lack of knowledge on how to obtain efficient poverty reduction is one. Inaccurate use or misuse of knowledge is another. Administrative inadequacy in organizing and implementing a poverty reducing strategy can be considered another reason for failure. Such arguments can be classified as technical reasons. The underlying assumption is that if knowledge, resources and administrative expertise increase, then poverty reduction would also increase. The explicit aim for donors and others is to work towards improving such technical defaults. It is important that they continue to do so. At the same time, we know that other and much stronger forces intervene to prevent poverty reduction. On the one hand we have forces that have a direct interest in neglecting poverty reduction or even trying to stop it from being implemented and carried out in an efficient manner. There are many reasons for such an attitude. It may be the dislike of poor people, the dislike of sharing resources or the fear of changing a social structure in favor of the poor. Some of those poverty producing forces are intended because vested interests are linked to continued poverty. Other poverty producing forces are unintentional, but still powerful. As a matter of fact, it can be argued that unintentional poverty production has a larger impact on poverty formation than direct poverty production. The relevance of the argument is here that poverty reducing strategies cannot be understood unless one takes into account also the forces that work against poverty reduction. The negative forces built into a counter-strategy can be political, cultural, economic or symbolic. If this argument is correct poverty reducing strategies need to be analyzed and understood not only in terms of intended positive effects. It is just as necessary to analyze and understand the likely counter forces that come into play when a new poverty reducing strategy is introduced. Financial literacy will undoubtedly make people more capable of managing their finances. It is unclear, however, whether it will reduce financial vulnerability in low-income households if institutional barriers to beneficial financial products are not also addressed. The concept of *financial capability* includes financial literacy but also addresses these institutional barriers facing low-income households

## REVIEW OF LITERATURE

Banks play an important role in meeting credit need of people. More studies have attempted to analyze the promoting of financial literacy in low income communities. The RRBs and commercial banks in the economic development and relation with other developmental programmes. An attempt in this section has been made to review some important research studies.

Finance Minister Pranab Mukherjee (2010) said financial inclusion was a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential of savings consumption and investment propensities of the poorer sections of society.

Transact the national forum for financial inclusion, (2007) Financial inclusion is a state in which all people have access to appropriate, defined financial products and services in order to manage their money effectively. It is achieved by financial literacy and financial capability on the part of the consumer and financial access on the part of product, services and advice suppliers.

Ghorude.K.N (2009) indicated that India's problems are diverse, pervasive and multidimensional, further microfinance bristles with problems, difficulties and constraints. Being single instruments, it may not be able to solve the problem of object poverty merely by distributing loans to a certain section of the population. Attaining the objectives of inclusive growth has to necessarily encompass the social,

economic and political inclusion. Developing micro entrepreneurship with organizational and community based support is one way of strengthening inclusive growth.

Sendhilvelan .M and Karthikeyan .K (2006) concluded that with a view to ensuring financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of “no frills” account. Further efforts must be made to move from the concept of ‘anytime, anywhere banking’ to ‘anytime, anywhere and to everyone banking’..

Vighneswara Swamy and Vijayalakshmi opined that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. There is a need for coordinated action between the banks, the Government and others to facilitate access to bank accounts amongst the financially excluded.

Usha Thorat (2007) reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy centers and credit counseling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently under way for furthering financial inclusion.

Chowdari Prasad and Yerram Raju ( Dec-2011/ Volume-1/Issue-5/Article No-9/189-197 ISSN: 2249-7196) concluded that financial inclusion is not an old wine in new bottle, either in India or elsewhere. It has been found to be wanting across the globe as a conscious policy to reach the unbanked areas and sections of the society. In India conscious strenuous efforts are being made through planning for development. Financial inclusion is not merely opening of ‘no frills’ account by all the bank branches as per targets on ritualistic basis. Eventually, all the agencies involved should collaborate to work for development in order to achieve in eradication of poverty. Financial inclusion would result in reduction of poverty in a planned manner.

### STATEMENT OF PROBLEM

Financial literacy has assumed greater importance in recent years as financial market has become increasingly complex and the common man finds it very difficult to take informed decisions. In olden days, though people earned less, they tried to save at least a little. In recent days, the earning capacity of the people has increased quite well. But, the saving habit is found less. It is abundantly clear that many citizens, not having sufficient financial knowledge, that are needed to make them productive and successful person in the society.

Financial literacy is not just for investors. It is essential even for an average family trying to balance its budget and save for the children’s education and the parents’ retirement. Hence, financial literacy is essential for the low income people to manage their finance efficiently by conserving the cost and time. Banks are offering various financial services to people but they fail to access many of the services such as microfinance, e-banking, mobile banking, bank guarantee and banc assurance etc. In addition to that they are confronted with various problems while availing financial services via, demand for collateral security, lack of technical knowledge, inadequate knowledge about financial products, time delay, complex procedural formalities, inadequate credit etc.

**OBJECTIVES OF THE STUDY**

- To promote financial literacy in India and carry on the activity of providing financial inclusion education through an academy being formed known as 'Financial Inclusion Education Academy'
- To be a leading entity related to capacity building and information provision for all financial service providers, practitioners and others
- Undertaking studies and research pertaining to financial inclusion, financial literacy, rural finance and related fields
- Working in advisory and consulting capacity to various agencies in the field of rural finance, financial literacy and related fields on not for profit basis.

**RESEARCH METHODOLOGY**

The study is analytical and exploratory in nature and makes use of Secondary data. The data of the study has been collected mostly from the secondary sources. The secondary data have been collected from various publications and different government and non-governmental sources. The data collected from secondary sources have been suitably edited, analyzed and interpreted according to requirement of the study. The purposes of the study are to provide a critical review of evidence about low-income and at-risk people on how their financial capability is measured, what programs are used to promote their financial literacy, and what evaluations of the programs uncover about them.

**Financial Literacy**

Financial literacy and education are prerequisite for effective financial inclusion, which will ensure access to financial products and services to all sections of the society. Financial literacy provides basic knowledge of money and finance and empowers a person to manage one's financial affairs. It can prevent a person from falling prey to financial indebtedness and enforce financial discipline in life. Financial literacy can also break the cycle of poverty which is often associated with the non availability of banking and credit facilities. Individuals who have experience in handling a bank account and saving schemes and an awareness of other effective money management skills are more likely to pass these on to their children. Financial literacy refers to the ability to understand finance and developing necessary skills to manage personal finance. In a broader sense it means acquiring knowledge about financial products, banking, credit, savings and investment. It is the ability to make informed judgements and to take effective decisions regarding the use and management of money and seek efficient financial advice wherever necessary from a financial advisor. It encompasses an understanding of how to use credit, manage money, retirement planning, minimizing financial risk, tax planning and derive long-term benefits of savings and investments. Financial literacy covers setting financial goals, developing money management skills, preparing family budget, exploring savings and investments including stocks, bonds and mutual funds. Other aspects of financial literacy include planning for special expenditures, knowledge of banking products, planning for retirement, insurance, taxes and understanding the impact of inflation and interest on money and investments.

**Needs for Financial Education and Information**

The need for financial literacy arises due to the importance of safeguarding money, planning for retirement, understanding complex financial products which offer high rewards and to invest wisely in order to maximize earnings and minimize risk. Financial literacy is a good way to teach consumers about the benefits of having a relationship with financial institutions and banks. Among these are access to funds and credit, the ability to establish a positive financial background, consumer protection and a higher propensity towards savings and wealth creation. The deprived and financially excluded



have little experience of using even fairly basic financial products such as a bank account or savings account. In addition banks have very limited physical presence in these areas and they are traditionally showing antipathy towards the economically weak and the poor. Banks do not take any interest in marketing their products and services to these people. As a result, people living in rural and backward areas often have particularly low levels of knowledge about financial products and, more importantly, may be very suspicious of the institutions that provide them. Many people living in deprived communities lack basic skills such as literacy and ability to understand numbers, interest rates etc. This further impedes their ability to become more financially literate. Efforts to overcome financial exclusion in deprived communities have to take place within this context. The deprived groups face a number of issues relating to financial literacy:

- ü A widespread lack of knowledge about financial products and services;
- ü A strong and widespread antipathy towards the financial services institutions, which is a key barrier to their use of financial products.
- ü A lack of basic money management skills, among young people and those who plan to set up home for the first time;

### **Lack of Knowledge**

Financial products and services include banking products, savings, credit, microfinance, insurance products, small saving schemes, shares and securities etc. But to a vast majority of people in deprived areas it means simply opening a no frills savings account in a bank or cooperative society. Lack of knowledge of financial products and services is the important reason for keeping large number of people excluded from the benefits of economic growth. Its manifestation is wide and noticeable among young and women folk in rural areas largely because of their non exposure to the financial services industry and limited experience of using financial products. This lack of knowledge and understanding impeded their use of financial products and undermined their confidence in engaging with the financial services industry. In particular, people lacked a detailed understanding of everyday financial products, the factors that determine access to financial products, financial services institutions and where to turn for information on financial services.

### **Developing Money Management Skills**

There is a need for training in the basic money management skills required to effectively manage a household budget. This is identified as a particular need for students and young people who are likely to plan their personal finance and investment at an earlier age. Recent interest in the issue of personal finance education has stimulated the development of a range of projects, courses and initiatives aimed at promoting financial literacy among particular groups of people. Most of this activity has been aimed at school children and young people. Providing financial literacy training is not a one-size-fits-all effort. Financial literacy is most clearly divided into four categories: early intervention, basic literacy, credit rehabilitation and long-term planning or asset building. Introduction of training at the earliest stage can often eliminate the need for corrective intervention at later stages. Training programs focus on providing information on specific topics such as banking services, budgeting, saving and investments. Many resources such as pamphlets, brochures, demonstration classes, video presentations etc. can be used for training purposes. However, the resources and other materials selected for disseminating basic information should be appropriate to the target group.

### School-based Schemes

Financial literacy to students is a thrust area in recent years. The National Curriculum Committee has taken some initiatives in this direction by including financial education in school curriculum. The core elements of school based schemes are financial knowledge and understanding, financial skills and competence and developing financial responsibility. The training may be imparted and supported by financial institutions, credit unions, banker's clubs and regulatory bodies. Training schemes include websites and education packages featuring information, worksheets, quizzes, competitions and notes for teachers. National Institute of Securities Markets (NISM), established by the Securities and Exchange Board of India (SEBI), the regulator for securities markets in India, has developed a program to impart basic financial skills to school students (Classes VIII upwards). Named as 'Pocket Money', this program has been developed as an eight (90 minute) session course.

### Schemes for Adults

There are a number of options for teaching money management skills to adults. But these groups are scattered, less organized and more localized with heterogeneous social and economic profiles. Face to face training methods like class room teaching model may be adopted to appropriate groups. Seminars, conferences, workshops, case studies presentations along with printed resources and materials are best suited to educate the adults. 'Investor First' is an initiative by NISM's School for Investor Education and Financial Literacy. This website provides unbiased information on Investing and Financial Planning and aims to empower individuals with right knowledge and tools that will help them make wise investment decisions and long term wealth. Stock exchanges in India like NSE and BSE have websites that provide independent information on financial products and services for customers.

### Linking Financial Literacy and Financial Inclusion: Toward Financial Capability

Figure 1 is a schematic depiction of the hypothesized relationship between financial education and financial stability and well-being through improved financial literacy and improved use of financial products.

Figure 1: Financial literacy

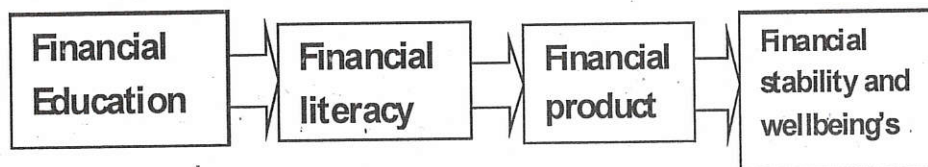


Figure 2 is a depiction of hypothesized relationship between access to financial products and financial stability and well-being through financial inclusion and improved knowledge and skills.

Figure 2: Financial inclusion

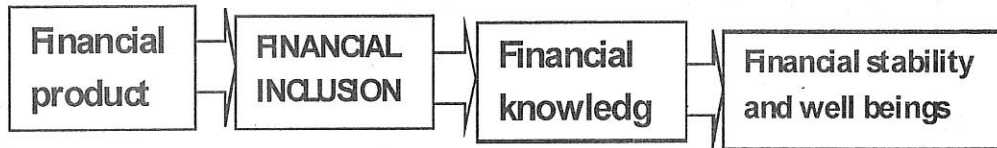
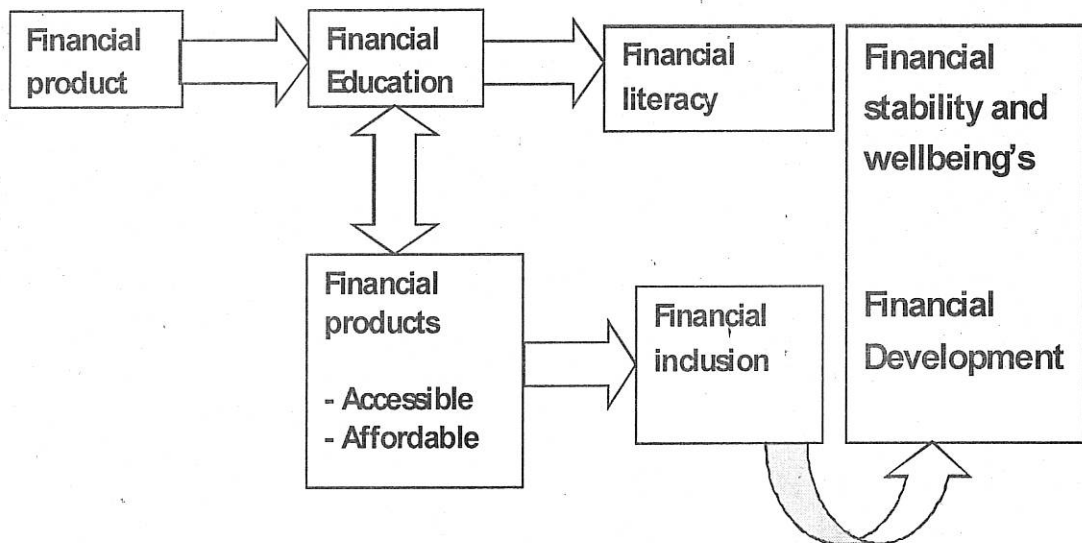


Figure 3 is a depiction of financial capability. In this graphic, financial knowledge and skills (from economic socialization and financial education), generates improved financial literacy. At the same time, accessible, affordable, financially attractive, easy to use, secure, and reliable financial products lead to financial inclusion. Together financial literacy and financial inclusion build financial capability in low-income households. Increases in financial capability lead to greater financial well-being, and more opportunities for financial development. Financial well-being and opportunity for financial development generate more financial literacy and financial inclusion.

Figure 3: Financial capability



Nussbaum (2000) writes, internal capabilities (in this case, financial knowledge and skill, or improved ability to act) and external conditions (financial products and services, or improved opportunity to act) are each important, but may also interact in ways that make the combination more beneficial than the sum of its parts.



According to this schema, financial education without access to financial products and services—or access to financial products without financial education—is less effective and potentially harmful (Lyons, Chang, & Scherpf, 2006).

### SUGGESTION

- Distribution of financial literacy related books in Oriya, English, and Hindi.
- Seminar on Financial Inclusion involving State Govt., bankers, experts, Industry chambers, NGOs etc. And Programmes on local radio / TV.
- Bank should open small extension counters at organization providing public utility services such as local schools, primary health care centre, village mandies, farmers association and bus stops etc.
- Reserve Bank and Government should give the suggestion to commercial banks to promote the financial product and services of banking through all the educational institution (primary, secondary & higher secondary).
- The RBI should mandate that commercial banks have a certain percent of their portfolio in small loans. In addition, important social considerations should be factored into loan decisions. The children have to be attending a school before they are eligible for a loan. Similar conditions should be imposed for eligibility of loans in India.
- The government could also add extra incentives to lend in Rural areas India needs to expand the current business correspondents model to allow microfinance institutions, NBFCs and other profit-powered companies to use correspondents.
- The government of India should help develop financial literacy among the population, particularly in low-income families. That can be done by teaching it in primary schools, high schools and colleges.

### Conclusion

Financial literacy is a basic need of Inclusive Growth. It is a long term process to educate the students, youths and adults by providing basic knowledge of personal finance, financial services, and developing money management skills. Enabling poor people to participate in the growth economy requires ensuring that they get access to a whole range of financial services like payments, remittances, savings, insurance and not just credit. By inclusion we mean a knowledgeable people and an inclusive financial sector gaining access to all. In fact, the inclusion is a continued banking relationship which cannot rest until the poor households become environmentally and financially sustainable.

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# Health Insurance in India - An Introduction

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## ABSTRACT

Health insurance is a safeguard against rising medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed-upon price (the premium). Depending upon the policy, premium may be payable either in a lump sum or in installments. Health insurance usually provides either direct payment or reimbursement for expenses associated with illnesses and injuries. The cost and range of protection provided by health insurance depends on the insurance provider and the policy purchased. There are many health concerns including the following which accentuate the demand for health insurance: Environmental pollution is causing serious health problems to humans, the fast spreading AIDS, poisonous gases, various wastes including nuclear waste generated by the people are seriously endangering the life on earth, a person may face serious monetary problems for the medical treatment and hospitalizations during life.

**KEY WORDS:** Health Insurance, Health Policy, Safe Guard, Individual Mediclaim, Family Floater Policy, Unit Linked Health Plans, Cashless Hospitalization, Medical Reimbursement.

## INTRODUCTION:

*'Happiness lies, first of all, in health.'* - George William Curtis

Life is full of uncertainties. Risk lurks in every nook and corner of human life. In short, life is unpredictable. We need to be prepared for such circumstances. Leading a happy life, involves good planning and analysis for your personal health. Accidents do happen and you need to be prepared for such situations. In times of high health cost, you need to get covered for health risks. To overcome uncertainties in human life and lead a life free from stress, insurance plays an important role.

## OBJECTIVES AND RESEARCH METHODOLOGY OF THE STUDY:

The main objectives on which the study focuses upon are as follows:

1. To make a conceptual study about the Health Insurance Schemes offered by the insurance companies in India.
2. To make an awareness about importance of Health Insurance policies available in the Indian Insurance Industry.
3. To assess the different health Insurance Products issued by General Insurance Companies, Life Insurance Companies and Standalone Insurance Companies.
4. To study about different health Insurance Schemes available for the Poor and for the Senior Citizens of India.

The present study is based on secondary data mainly collected from annual reports of Insurance companies and IRDA Annual Reports, Journals, and websites, articles and reviews.



**LITERATURE REVIEW:**

**Deepanjan Banerjee** in his paper “**Health Insurance in India-Time for Concious Revolution**” retrieved from [www.karvy.com/articles/healthinsurancerevolution.htm](http://www.karvy.com/articles/healthinsurancerevolution.htm) has described that the primary health care system in India is managed mainly by the shallow structure of government health-care facilities and other public-health care systems in a traditional model of health funding and provision.

**Berman, Peter A. (1998)** in “**Re thinking Health Care Systems: Private Health Care Provision in India**” opined that, most developing countries have pursued formal health care system strategies which give primacy to government roles in financing and delivering health services.. This paper argues that, given the current situation in many countries, this long-term strategy to develop a “national health service”—type model of health care provision is misguided and wasteful. Major problems related to quality of care and the financial burden of unregulated fee-for-service medicine are also documented.

**B. S. Ghuman, Akshat Mehta (2000)** in his Article “**Health Care Services in India: Problems and Prospects**” examines the problems and prospects of health care services in India. Health sector has been accorded very low priority in terms of allocation of resources. Public expenditure on health is less than 1 per cent of GDP in India. It has further witnessed decline during the post economic liberalization period. The meagre resource allocation to health sector has adversely affected both access and quality of health services.

**Banerjee and Parhi (2007)**, revealed that competition was yet to reach the pricing arena in health insurance. The oligopoly nature of market has turned to restrict the free play of market forces through product differentials. Post detariffing, the upcoming probable price war in other fields of insurance, may create a momentum in this section. In future, health insurance premium goes up by another 40 percent to factor the increased claim ratio of 130 percent in health insurance, which obviously is unacceptable.

**Rao (2007)**, Editor in the paper “**Overview of the Health Insurance Market in India**” reported, “Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent de tarrification in the non-life domain has provided a great deal of operational freedom to the players”.

**THE HINDU INDIA'S NATIONAL NEWSPAPER** on Friday, Nov 28, 2008 “**Health Insurance Scheme for BPL Families,**” described the unequal access to health services is reported across strata, gender and location (i.e. urban and rural areas). With a view to improve access and quality of health services, government should enhance public spending on health sector in the vicinity of 3 per cent of GDP.

**Bhatta charya et in (2008)** “**Private and Public Health Insurance Models in India: A Balanced Approach,**” opined that India and many other countries need to rethink their health care system development strategies to acknowledge and build upon the opportunities offered by the already extensive non-government health care sector, rather than to view non-government services simply as a constraint to successful public programs. The paper provides specific recommendations as to how this might be done.

**Importance of Health Insurance**

The importance of Health Insurance can never be undervalued for the following reasons:

1. Provides security to human life which is of prime importance to any individual.
2. Closely bonds Insurance Companies, Hospitals, Policyholders and TPAs together for the benefit of Indian masses.
3. An answer to the solution of uncertainties and risks that is prevalent and ever pervading in human life.
4. Prevention and minimization of unforeseen losses.
5. Access to quality healthcare.
6. Means of savings and a safe investment option.
7. Provides financial stability in life.
8. A tax-saving instrument that significantly contributes in reduction of tax deductions.
9. Reduces tensions and stress caused on account of hospitalization.
10. Greatly contributes in leading a stress-free life.

**Types of Health Insurance:**

There are mainly 3 types of Health Insurance covers which are as follows.

**Individual Mediclaim: , Family Floater Policy: , Unit Linked Health Plans:**

**Mediclaim Policy :** The simplest form of health insurance is the Individual Mediclaim policy. It covers the hospitalization expenses for an individual for up to the sum assured limit. The premium is dependent on the sum assured. It is a cover which takes care of medical expenses following Hospitalization / Domiciliary Hospitalization of the insured in case of sudden illness, accident and any surgery which is required in respect of any disease which has arisen during the policy period. .

**Family Floater Policy:** Family Floater Policy is an enhanced version of the mediclaim policy. The policy covers each family member and the entire family's expenses are covered up to the sum assured limit. The family floater plan's premium is less than the separate insurance cover for each family member.

**Unit Linked Health Plans:**

Health Insurance Companies have introduced Unit Linked Health Plans which combine health insurance with investment and pay back an amount at the end of the insurance term. The returns are dependent on market performance. These plans are new and still in development phase..

### Categories

Indian Health Insurance is primarily classified into 2 categories:

- Cashless Hospitalization
- Medical Reimbursement

#### a) Cashless Hospitalization

Cashless hospitalization is a specialized service provided by an insurer wherein an individual is not required to pay the hospitalization expenses at the time of discharge from the concerned hospital. The settlement is done directly by the insurance company (or insurer). However, prior approval is a must from the TPA (Third Party Administrator) before availing the benefits under this option.

Cashless hospitalization can be of two types:

**Planned hospitalization:** This is a planned hospitalization wherein the insured is aware of the hospitalization in advance.

**Emergency hospitalization:** It is a sudden hospitalization that may be either an emergency or due to unforeseen circumstances.

**b) Medical Reimbursement** Re-imbursement means to repay or to compensate. Thus, Medical Reimbursement means to repay the products/services availed during hospitalization and more importantly after the completion of the treatment.

Not only general insurance companies, some of the Life insurance Companies and standalone health insurance companies offer different health insurance products which fulfill different needs of different peoples. Below given categorically health insurance products issued by insurance companies.

#### Insurance Companies Providing Health Insurance

There are a total of 22 (excluding Agriculture Insurance company of India Ltd & Export Credit Guarantee Corporation of India Ltd) General Insurance companies in the market who sell health insurance products including four public sector eleven private sector and three standalone health insurers in private sector.

#### Some examples are:

1. Mediclaim Policy (individuals and groups)
2. Overseas Mediclaim Policy.
3. Videsh Yatra Mitra, Standard cover
4. Raj Rajeshwari Mahila kalyan Yojna
5. Bhagyashree Child Welfare Policy
6. Janata Personal Accident Policy
7. Cancer Insurance Policy
8. Bhavishya Arogya Policy
8. Jan Arogya Bima Policy
9. Personal Accident Policy
10. Gramin Personal Accident Policy
11. Universal Health Insurance Policy.



**General Insurance Companies offering Health Insurance Products:**

- Bajaj Allianz General Insurance Co Ltd
- BhartiAxa General Insurance Co. Ltd.
- Cholamandlam MS General Insurance Co. Ltd
- Future Generali India Insurance
- HDFC Ergo Genrali Insurance Co Ltd
- ICICI Lombard General Insurance Co. Ltd.
- IFFCO Tokio General Insurance Co. Ltd.
- National Insurance Co Ltd
- Reliance General Insurance Co. Ltd.
- Shriram General Insurance Company Limited
- Royal Sundaram Alliance Insurance Co. Ltd.
- ÅTA AIG General Insurance Co. Ltd.
- The New India Assurance Co. Ltd.
- The Oriental Insurance Co. Ltd.
- United India Insurance Co. Ltd.
- Universal Sompo General Insurance Co. Ltd.

**Life Insurance Companies Offering Health Insurance Product**

- 1) Life Insurance Corporation of India
- 2) Aviva life Insurance
- 3) Birla Sun Life Insurance
- 4) Bajaj Allianz Life Insurance Co Ltd
- 5) Bharti AXA Life Insurance Co Ltd
- 6) Future Generali India Life Insurance Company Limited
- 7) HDFC Standard Life Insurance Company Ltd.
- 8) ICICI Prudential Life Insurance Co. Ltd.
- 9) IDBI Fortis Life Insurance Co, Ltd.
- 10) Max New York Life Insurance Co. Ltd.
- 11) MetLife India Insurance Co. Ltd.
- 12) Reliance Life Insurance Co. Ltd.

**Standalone Health Insurance**

- 1) Star Health and Allied Insurance Company Limited
- 2) Appolo Munich Health Insurance Co. Ltd.
- 3) Max Bupa Health Insurance Company Ltd.

**Mediclaime Policy (group and individual)**

Mediclaime policy is offered to individuals and to groups exceeding 50 members. It covers hospitalization for diseases or sickness and also for injuries. Under group mediclaime policy, group discount is allowed to groups exceeding 101 people. The medical expenses will be reimbursed only if the insured is admitted in the hospital for a minimum duration of 24 hours. The insured can insure between Rs.15000 to 500000.

This policy is available for the people of age between 5 to 80 years and children between three months and 5 years.

**Overseas Mediclaime Policy**

In 1984, the Overseas Mediclaime Policy was developed. This policy will reimburse the medical expenses incurred by Indians up to 70 years of age while travelling abroad. The premium will be charged based on their age, purpose of travel, duration and plan selected by the insured under the policy. **Overseas mediclaime** policy provides two types of policies namely **Standard cover** and **Videsh Yatra Mitra**. Under standard cover, three types of plans are offered with different coverage's and under Videshyatramitra three plans are offered with very wide coverage.

**Raj Rajeshwari Mahila Kalyan Yojna:** It is a personal accident policy offered by an insurance company for the welfare of women. It is offered to women residing in rural and urban areas. Women between 10-75 years of age are eligible for this policy irrespective of their occupation and income level. This coverage is provided on 24 hours basis.

**Bhagyashree Child Welfare Policy:** This policy is offered to girls between 0-18 years. The age of parents of the girls should not be more than 60 years. It provides coverage to one girl child in a family who loses her father or mother in an accident. It provides insurance coverage to the girl child and also her parents against death and disability for 24 hours.

**Janata Personal Accident Policy:** Any individual between 10-70 years of age is eligible for coverage under this policy. This policy offers coverage in the event of death or loss of limbs due to an accident. Amount of premium charged is Rs.15 p.a. per individual. The premium charged under this policy is comparatively less when compared to other policies as this policy is meant for the weaker sections of society.

**Cancer Insurance Policy:** Cancer insurance policy is designed for cancer patients aid association members. The members of this association are eligible for this policy except those members who are already suffering from cancer. The persons insured under this policy will pay premium to their association along with the membership fee. This policy will offer coverage to the insured in case he develops cancer.

**Jan Arogyabima Policy:** This policy provides medical insurance to poorer sections of the people. This policy covers illnesses like heart attack, jaundice, food poisoning, and accidents etc. that require immediate hospitalisation. This policy is applicable to individuals between 5-70 years.

**Gramin Personal Accident Insurance:** This policy is designed for the rural people in the country. This policy has fixed insured sum of Rs.10,000/- and the premium charged is Rs. 5/- The individuals falling in the age group of 10-70 are eligible for this policy

**Some of the important health Insurance Products issued by General Insurance Companies, Life Insurance Companies and Standalone Insurance Companies are:**

**The Life Insurance Corporation** offers Ashadeep Plan II and Jeevan Asha Plan I And Health Plus a Unit Linked Health Insurance Products and Jeevan Arogya.

**The General Insurance Corporation** offers Personal Accident policy, Jan Arogya policy, RajRajeshwari policy, Mediclaim policy, Overseas Mediclaim policy, Cancer Insurance policy, BhavishyaArogya policy and Dreaded Disease policy.

**The Oriental Insurance Company's** Health Insurance Products include:

Bhavishya Arogya, Gramin Accident Insurance, Group Insurance Policy, Individual Mediclaim Policy, Jana Arogya Bima, Universal Health Insurance Scheme.

**National Insurance Company Limited** offers products like Personal Accident Policy, Critical Illness Policy, NRI Accident Policy Traffic Accident Policy, Mediclaim Policy, Star national SwasthyaBima Policy Parivar-Mediclaim for Family etc.

**The New India Assurance Company Limited**, offers products like Individual Mediclaim, Personal Accident, Overseas Mediclaim etc.

**The Oriental Insurance Company Limited** offers like Rural Insurance Policies, Bhagyasree Child Welfare Policy, Janta Personal Accident Policy, Universal Health Insurance Scheme and . Popular Policies Comprehensive Health Insurance Schemes like, Group Medicalaim Policy, Individual Mediclaim Policy, Swasthya Bima Policy, Universal health Insurance Scheme Happy Family Floater.

**Royal Sundaram Group:** The Shakthi Health Shield policy offered by the Royal Sundaram group can be availed by members of the women's group, their spouses and dependent children.

**Bajaj Allianz General Insurance Company Limited** offers health I products like Critical Illness, Health Ensure, Health Guard, Cash Insta Insure, Personal Guard, Sankat Mochan, Silver Package, Tax Gain.etc.

**Bharti AXA General Insurance Company Limited**, provides health insurance products like Smart Health Insurance Policy, Smart Health essential Insurance Policy, Smart Health Critical Insurance Policy, Smart Health High Deductibles Insurance Policy etc.

**Cholamandalam MS General Insurance Company Limited** offers health insurance products like Individual Health, Family Health and Health Claims etc.



**Future Generali Insurance Company Limited** offers products like Group Health Policy and Group personal Health policy.

**HDFC Ergo General Insurance Company Limited** offers policies like Health Suraksha, Critical Illness, Accident Protection Plan-Hospital Cash.

**ICICI Lombard General Insurance Co Limit** offers policies like Health Insurance Hospitalisation over(FamilyFloater),HealthAdvantagePlus,PersonalAccident,CriticalCare,Compare Plan, Health Renewal, Health Claim.

**Appolo Munich Health Insurance company** has brought the following health insurance policies for the citizens of India. These are Easy Health,it is a pure medical insurance product that is most popular among the people of India.

**Star & Allied Health General Insurance** is India's First Stand-Alone Health Insurance Company in India. It specializes in Health Insurance that deals with Personal Accident, Mediclaim and Overseas Travel Insurance

**Max Bupa Product Portfolio: Health Insurance:** Max Bupa offers health insurance for individual as well as family. The products offered by Max Bupa are- Heartbeat gold, Heartbeat silver and Heartbeat platinum.

#### **Health Insurance for Senior Citizens of India**

Any individual aged 60 years or above is called as senior citizen. These citizens have worked hard all their lives and contributed to the development of the nation and the community. Though generally ignored and sometimes shunned by the younger community but there is much to learn from them. Some continue to be productive and work in various capacities. Most organizations and universities entertain these skilled manpower up to the age of 65 to 70 years.

The senior citizens need to be cared for and the society and nation owes them a decent life in their old age. Keeping these sentiments, the Indian Government of India, has introduced several benefits through its various schemes in for senior citizens. One amongst such schemes includes health insurance policy.

#### **Different Schemes for Senior Citizens**

There are different schemes and policies for Senior Citizens which are meant to promote the health, well-being and independence of senior citizens across the country. These Schemes include;

- 1) **The central government of India** came out with the National Policy for Older Persons (or Elderly Individuals) in 1999. These guidelines aim to encourage individuals to facilitate provisions for self as well as their spouse's old age. This policy has been designed to enable voluntary and non-governmental organizations to supplement the care rendered by the family and provide care and protection to this vulnerable lot. The main purpose of this policy is to make elderly people fully independent citizens.
- 2) Another important program introduced by **the Government of India** is the **Scheme** of Assistance to Panchayati Raj Institutions, voluntary organizations and Self-Help Groups for the construction of Old-Age Homes and Multi-Service Centers for Senior Citizens.

- 3) **Central Government Health Scheme (CGHS)** provides pensioners or retired employees of central government various healthcare facilities for availing treatment and obtaining medicines for chronic (or long-standing) ailments up to three months at a stretch.
- 4) **The National Mental Health Program** focuses on the needs of elderly individuals who are affected with Alzheimer's disease, Dementia, Parkinson's disease, Depression, Psycho-somatic disorder and Psycho-Geriatric ailments.
- 5) **The Central Government of India** is constantly in the process of evolving and rolling-out of newer plans and schemes to benefit senior citizens across the country. In the 2007-08 Budget, the Finance Minister had proposed to provide monthly income to seniors and develop new healthcare insurance schemes.
- 6) **The National Housing Bank** - has introduced a 'reverse mortgage' scheme under which a senior citizen owning a house in India can avail of a steady monthly stream of income against mortgage of the house. The senior citizen remains the legal owner and occupies the house throughout his or her lifetime, without repayment of the loan. Regulations are to be initiated for creation of mortgage guarantee companies.
- 7) **Exclusive health insurance schemes for senior citizens** offered by selected Insurance Companies like Star Health & Allied Insurance Co Ltd offers Product named as Senior Citizen Red Carpet and The New India Insurance Co. Ltd. Product's name is senior citizens mediclaim policy
- 8) **The Maintenance of Parents and Senior Citizens Bill of 2007** - This bill facilitates care for the maintenance of aged parents, establishment of old homes, provision of medical care and protection of life and property of senior citizens.

#### **Low Premium Health Insurance Policies for Account Holders of Banks including Senior Citizens**

Low premium hassle free health insurance policies for individuals & family including senior citizens in the family are available with banks where you have your account & if your bank does not have this facility then you may open a saving account in one of these banks and then opt for a bank's Group Mediclaim policy on floater basis for entire family for account holders. A single premium is charged for entire family including account holder, spouse, two dependent children.

#### **Following banks offer such policies to their account holders only:-**

1. Bank of India's BOI National Swasthya Bima with National Insurance Company Ltd
2. Bank of Baroda's Baroda Health Policy with National Insurance Company Ltd
3. Union Bank of India's Union Healthcare with New India Assurance Company Ltd
4. Indian Bank's Arogyaraksha with United India Insurance Company Ltd.
5. Corporation Bank's Corp Mediclaim with New India assurance Company Ltd.
6. Bank of Maharashtra's Mahabank swasthyayojana with United India Insurance Company Ltd.
7. Punjab National Bank's PNB-Oriental Royal mediclaim Policy with Oriental Insurance Company

**The companies offering health insurance for senior citizens**

- 1) Bajaj Allianz General Insurance Co. Ltd. Offers a Product like Silver Health Policy (Health Cover for Seniors). This policy covers the people ranging from 46 years to 75 years and cost of pre acceptance medical tests are reimburse, if the proposal is accepted.
- 2) National Insurance Co. Ltd. offers a product for senior citizen named as Product- Baristha – Mediclaim for Senior Citizens.
- 3) Oriental Insurance Co. Ltd. product for them named as Senior Citizen Specified Diseases Insurance
- 4) Star Health & Allied Insurance Co Ltd offers Product named as Senior Citizen Red Carpet.
- 5) The New India Insurance Co. Ltd. Product name is senior citizens mediclaim policy.
- 6) United India insurance company limited offers products like (Senior Citizen Specified Diseases)

These new developments concerning senior citizens are meant to get such individuals on the path to a better, peaceful, stable, financially sound and secured life.

**Health Insurance for the Poor**

Schemes like the CGHS, ESIS, Mediclaim, etc. mostly cover the organized sector, which comprises not more than 10 percent of all workers. With 70 per cent of the population living in rural areas, 90 per cent of the workforce working in the unorganized sector, and a larger percentage of population living below poverty line, there is a strong need to develop health insurance schemes for this section of population.

Health insurance for the poor is gaining importance in India from the demand as well as supply side. From the demand point of view it is because of the development of micro credit organizations that introduce it for their clients who take loans. On the supply side it is because IRDA makes it mandatory for all insurance companies to extend their activities to rural and well-identified social sectors of the economy.

Considering the above, the Community Based Health Insurance (CBHI) is one approach to provide healthcare for the poor. Community Health Insurance (CHI) can be defined as “any not-for-profit insurance scheme that is aimed primarily at the informal sector and formed on the basis of a collective pooling of health risks, and in which the members participate in its management.

**Models of Community-Based Health Insurance**

CBHI schemes can take broadly three forms:

- (1) **Intermediary Model** – In this case, the nodal agency acts as an intermediary between the target community and an insurer. E.g. SEWA, ACCORD.
- (2) **Provider Model** – In this case, the nodal agency provides insurance. E.g. Tribhuvandas Foundation, Yeshaswini trust.
- (3) **Manager Model** – In this case, the nodal agency itself underwrites risk. E.g. Sewagram, BAIF, etc.



### Health Schemes for the Poor:

The following health schemes are in practice for the poor or low-income groups:

**Universal Health Insurance Scheme (UHS):** In 2003, the Finance Minister in his budget speech announced the Universal Health Insurance Scheme for low-income people. While, the scheme was open to anybody, the subsidy was given to only BPL families. In the budget of 2004-05, the finance minister increased the subsidy amount for BPL members to Rs. 200, Rs. 300 and Rs. 400 for the three different types respectively. In the UHS, the public insurers are supposed to involve separate agencies called Third Party Administrators (TPAs) who arrange for cashless hospitalization by coordinating between insurance companies, customers and healthcare providers.

**Community-Based Health Insurance Schemes (CBHS):** These have gained importance in recent years. The initiative for such schemes has come from NGOs and most of the schemes are targeted at low-income groups. Most of these insurance programmes have been started as a reaction to high healthcare costs and the failure of the government to provide good quality care. The objectives range from "providing low cost healthcare" to "protecting households from high hospitalization costs".

There are 14 well known CBHI schemes, which are concentrated in the States of Maharashtra, Karnataka, Tamil Nadu and Gujarat. One scheme is in the state of Chattisgarh and West Bengal. Almost half of them have been started after 1999 or so. Majority of schemes are based in rural or semi-urban areas working among the poor. The target populations are the tribals, the dalits, self-employed women, and farmers.

### Suggestions for Improvement .

The health insurance industry in India today is loss making and does not use any managed care techniques. There is need for managed care expertisement. Health insurance in India cannot be examined in a vacuum. The success of the industry depends on many factors such as the health services infrastructure, financial and economic ecosystems, and government regulations and support.

Health insurers in India currently face many challenges, including poor awareness, low product acceptance, and uncertain business profitability. Although external factors could be partly responsible for this situation, the health insurers also need to introspect and develop innovative models to build on the existing base. In this context, it is imperative that health insurers in India deploy managed care concepts, which will go a long way toward addressing the systemic issues in the current operational models of health plans.

To overcome these challenges, health insurers need to innovate in their product offerings and tighten their existing processes and cost structures. But as a long-term strategy, it is required that health insurers should go for Simple and innovative managed care techniques which can help to face many of the industry challenges.

### CONCLUSION:

The year 1999 marked the beginning of a new era for health insurance in the Indian context. With the passing of the Insurance Regulatory Development Authority Bill (IRDA) the insurance sector was opened to private and foreign participation, thereby paving the way for the entry of private health

insurance companies. The Bill also facilitated the establishment of an authority to protect the interests of the insurance holders by regulating, promoting and ensuring orderly growth of the insurance industry. The bill allows foreign promoters to hold paid up capital of up to 26 percent in an Indian company and requires them to have a capital of Rs 100 crore along with a business plan to begin its operations. Last but not least, IRDA should acknowledge the presence of such schemes and their role in the Indian insurance market.

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## Competency Mapping in BIITM

Pankaj.K.Biswas\*

### ABSTRACT

The performance of an organization depends mostly on the quality of their human resource. For obvious economic and business reason, organization have always been concerned about the competence of its people. This paper delves into study deep into concept of competency and its role in the present context.

It explains how the concept has constantly evolved since 1999 in BIITM over the years. Its application in human resource management and development of its faculty and staff. It also aims to study its future prospect in the light of other emerging organization in the business hub. The paper proceeds with examples of organization which has successfully integrated competency based system in their HR initiatives.

### INTRODUCTION

Chanakya's Arthshastra, an ancient Indian script/ book on Political Science and Administration, written some 3000 years ago. Other names of Chanakya were Mr. Kautilya, and Mr. Vishnu Gupt. Constitutions of all the major countries have origin in this book. It could be Indian Constitution, Irish, Canadian, USA, Australian, etc. and even British unwritten constitutions have roots imbibed in this book. It is the towering book in which you find the basics and applications of Management Sciences, Chemistry, Physics, Military and War techniques, Basic Engineering and Technologies, Ethics, Legal and Judiciary and Fiduciary system, Values, Psychology, and Anthropology, Organization Behavior, Human Resource Management. In fact major basics of all Marketing Management, Human Resource Management, basics of Management Models, are been directly lifted with some modification from this book. Great efforts of Chanakya by all means; and one of the greatest contributions to the world. You may call Arthshastra as a Classical book once if you read, you will find other subjects easy any time in your life.

If you check what the ten best people do and what the ten worst people don't do, you come to a conclusion that these are the parameters that build competency. It's like stitching your own shirt. But when we started doing it, we collected some 20,000 behaviour types which took a long time for us to collate. There are plenty of instruments for an HR person today, just apply it and get a readymade competency map. But it would be like a doctor who only takes blood pressure measurement and bases all his treatment on that. So you can use instruments to augment decisions, but you can not create a competency starting from the instrument.



Broadly we defined 24 competencies which can describe all the behavioral competencies that were differentiating and relevant. We took care to drop some competencies which are differentiating but not relevant and vice versa. Then we made a Functional Dictionary relevant to HR, finance, software, etc. I would strongly advocate making a full functional dictionary since each role tries to become the next role and the previous role must map into this role. But I am not saying that it is necessary to have all the 24 competencies and depending on the job, each role may have 5 or 6 competencies.

### Types of competencies

#### *Developing people*

- 1 *assemble strong team*
- 2 *Stretches, empowers and trains people*
- 3 *Communicate effectively with people*
- 4 *Provides feedback, rewards and recognition*
- 5 *Demonstrates and stimulates passion*

#### *Commitment*

- 6 *Widely trusted*
- 7 *Takes ownership*
- 8 *Delivers on commitment Values and ethics*
- 9 *Aligns with company values*
- 10 *Adheres to code of conduct*
- 11 *Rewards right behaviours*
- 12 *Ensures that laws are obeyed*

#### *Vision and purpose*

- 13 *Sees possibilities, optimistic*
- 14 *Creates and communicates*
- 15 *Inspires and motivates*
- 16 *Aligns the organization*

#### *Performance*

- 17 *sets and achieves goal*
- 18 *Listen and respond*
- 19 *Drives for continuous improvement*
- 20 *Measures the right thing*
- 21 *Get result*
- 22 *Ensures health and safety*
- 23 *Take impersonal decision*
- 24 *Take care of environment*

### Competency and knowledge

Competency is an element of knowledge, it is an element of skill practiced regularly and with the right kind of attitude. So attitude builds competency. For example if you ask a hypothetical situation like what will you do in a fire emergency, some smart people will say I will not panic and also make sure that everybody is safely sent outside. But during an actual fire incident would he have the presence of mind

not to be hysterical? That temperament requires a competence called 'physical not know how to spell, 'quotation, presentation and discussion'! So when we do our competency modeling, the one crucial thing we should be concerned with is the 'How Competency mapping is a process through which one assesses and determines one's strengths as an individual worker and in some cases, as part of an organization. It generally examines two areas: emotional intelligence or emotional quotient (EQ), and strengths of the individual in areas like team structure, leadership, and decision-making. Large organizations frequently employ some form of competency mapping to understand how to most effectively employ the competencies of strengths of workers. They may also use competency mapping to analyze the combination of strengths in different workers to produce the most effective teams and the highest quality work

Finally what methods should you employ to build competence. You can use various methods to measure competency. Simplest among them is Self-appraisal telling people to rate themselves. Then there is the 360 degree feedback where we take feedback from that person, his peers, seniors, juniors and then take out a pattern to identify competency. Or you can have certain technical tests to grade them as masters or novices. Among these the 360 degree feedback seems to be the most accurate in evaluating people.

### **LITERATURE REVIEW**

The term 'competency' was first used in the managerial context in the research conducted by Boyatzis (1982) in the late 1970s in the US to identify the characteristics which distinguish superior from average managerial performance. Boyatzis adopted the term 'competency', plural 'competencies', which he described as underlying characteristics of an individual that are causally related to effective or superior performance in a job (Boyatzis 1982). The study concluded that there was no single factor but a range of factors that differentiated superior from average performers. These included personal characteristics, experience, motives and other attributes. In literature, the term competency is attributed multiple meanings depending on the context and perspective (Garavan and McGuire 2001; Viitala 2005). For instance, a 'competency' is seen as an input or an output of human behaviour. In the United Kingdom competencies are viewed as outputs: employees display competencies to the degree to which their work meets or exceeds prescribed work standards. In the United States, competencies are seen mainly as inputs: they consist of clusters of knowledge, attitudes and skills that affect an individual's ability to perform (Stuart and Lindsay 1997; Heffernan and Flood 2000; Brophy and Kiely 2002). As each approach has its own strengths, it is suggested that those should be regarded as complementary (Elkin 1990; Stuart and Lindsay 1997). In this regard, Stuart and Lindsay (1997) emphasized the need for a comprehensive framework for understanding and working with managerial competencies.

### **OBJECTIVES OF THE STUDY:**

1. To understand the competency level of staff/and faculty members at BIITM
2. To know the strength of BIITM in terms of competency.
3. To analyze the significant difference between each competency levels
4. To find out appropriate training programme for increasing competency level among the faculty members and staffs.



**METHODOLOGY:**

The study was directed towards limited number of faculty members and administrative members. The universe is about 30.no.of employees and faculty members. The samples are selected of 14 members on the basis of purposive sampling. Data has been collected through structured questionnaire .we are using some statistical tools like average, and bar chart to analyze the data. Since the objective is very specific so this method was found suitable.

**TRAINING AND DEVELOPMENT**

Competency assessment can further enable accurate 'gap analysis' between the capability of an individual and the requirements of current or future roles. This facilitates reality-based assessment and valuable feedback. Organization-specific competency mapping followed by periodical competency assessments can radically improve the accuracy of T&D needs analysis, returns on T&D investment and build the 'human capital' of the organization. To streamline its training offerings and to gear them more closely to its actual needs, Siemens merged its employee and management competency building and development programs into a single service unit, Learning Campus (LC). LC's education and training programs interlock tightly with the three company programs—innovation, customer focus and global competitiveness. This enables employees to align their skills and competencies more specifically with the company's strategic goals. "As far as training and development is concerned, instead of asking people to attend classes, they themselves get pulled to the classes. Introduction of competency mapping has also involved introducing skill appraisals in performance appraisals. This has also led to training people on how to assess subordinates on competencies. The best human resources development is when people in the line department do HR. Where the HR department is the enabler, the line people see the advantage and drive us. Competency-based HR makes this almost-utopian dream attainable. (Devendra Nath, The Indian Express, January 31, 2005)".

Performance Management

**COMPETENCY MAPPING CONSTRAINTS**

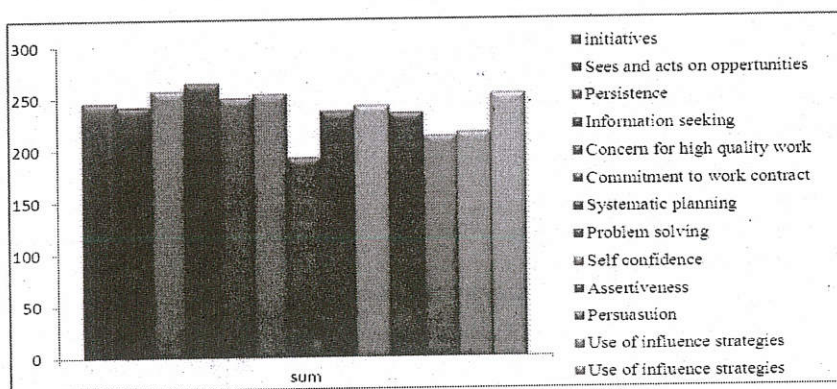
Competency mapping is a novel technique to diagnose the gaps and improve performance of employees. However, it is subject to certain constraints. For instance, the data collected through a questionnaire and behavioural interview are largely based on perceptions of employees and their superiors. Hence, the data gathered may be biased and may not be completely reliable. Further, compilation of data is a difficult process as it is not plausible to list all the strengths and weaknesses of employees into watertight compartments. Competency mapping may also affect the growth of individuality of the employees. The expected levels of knowledge, skills and attitudes by the superiors may force the employees to adopt similar attitudes and manners. This may restrict the development of an individual's own behaviour and self-identity.

Moreover, competency mapping is not a one-time exercise. It is a dynamic process, which needs to be continually reviewed as the competencies of people always undergo change. A competency-based culture needs to permeate through the entire organisation and be nurtured and enhanced over a period of time, as many believe. It helps an organisation focus on the strengths of its human resource and capitalise on it while giving the organisation a competitive advantage in the market.

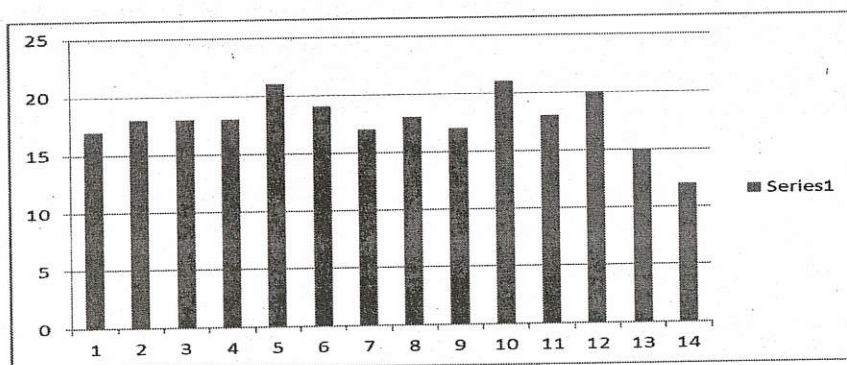


Competency mapping is a novel technique to diagnose the gaps and improve performance of employees. However, it is subject to certain constraints. For instance, the data collected through a questionnaire and behavioural interview are largely based on perceptions of employees and their superiors. Hence, the data gathered may be biased and may not be completely reliable. Further, compilation of data is a difficult process as it is not plausible to list all the strengths and weaknesses of employees into watertight compartments. Competency mapping may also affect the growth of individuality of the employees. The expected levels of knowledge, skills and attitudes by the superiors may force the employees to adopt similar attitudes and manners. This may restrict the development of an individual's own behaviour and self-identity.

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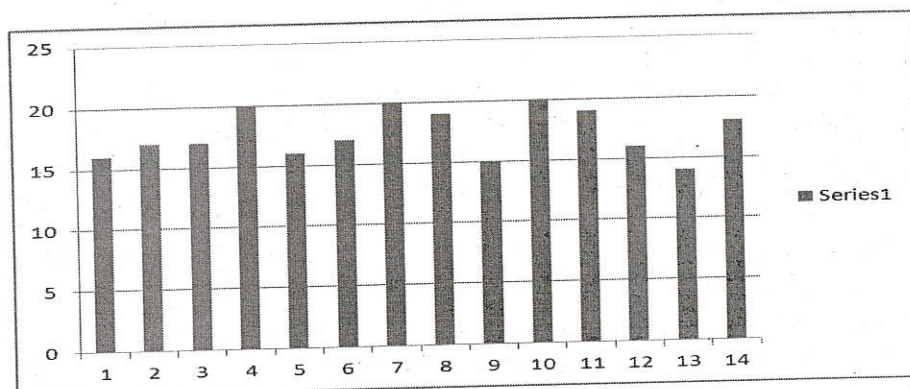


Initiative Majority of members are above 60% and taking initiative.



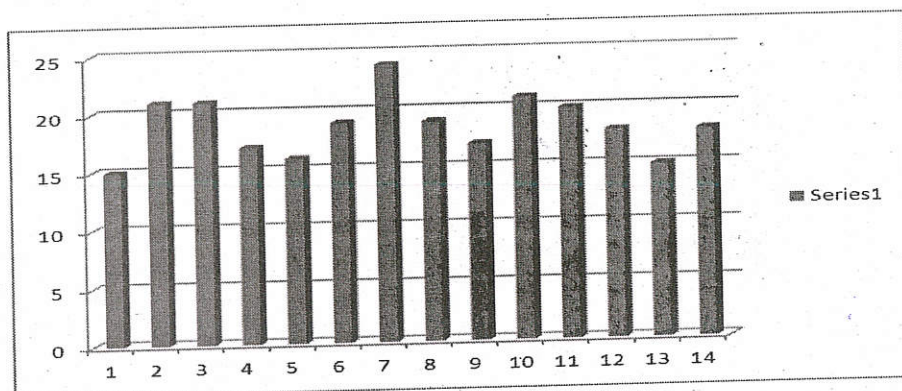
Sees and acts on opportunities

Most of the members are above 60% and shows the aptitude of grabbing the opportunity.



### PERSISTENCE

Majority of members lack persistence which needs training.



### INFORMATIONSEEKING

Information seeking is unevenly distributed among the members some members have even below 60% which is not sufficient for taking an effective decision. Some are 80% which is ok

### CONCERN FOR HIGH QUALITY OF WORK

All the members are concerned about high quality of work equally except few of them are highly concerned about high quality of work.

### COMMITMENT TO WORK CONTRACT

Commitment is equally present in all members.

### EFFICIENCY ORIENTATION

Efficiency is less in almost all members except two. So faculty development programme will help upbringing the standard to a expected level.

### SYSTEMATIC PLANNING

Graf shows an U shaped diagram showing the planning strategy among the members. The member no 5,7,10,11 are quite on the higher side while rest are in the lower sidewhich shows not in equilibrium. This needs traing for those who are in lower side.



**PROBLEM SOLVING**

This table shows almost all the members are equally and they are capable of handling problems on their own

**SELF CONFIDENCE**

Self confidence is uniformly possessed among all the members except two or three members. This shows the members confident enough to take decision and do things confidently.

**ASSERTIVENESS**

Majority of members are above average in assertiveness except three of the members are below average who needs training under faculty development programme.

**PERSUASION**

It is widely varied among all the members which shows there is no uniformity among the members in the application giving a uniform work culture which is influencing the members.

**USE OF INFLUENCE STRATEGIES**

Except 4 of the Faculty and administrative member moderately using their influence strategically. The four members are using their influence strategically more

**Findings**

Majority of members are above 60% and taking initiative. Most of the members are above 60% and shows the aptitude of grabbing the opportunity. Majority of members lack persistence which needs training. Information seeking is unevenly distributed among the members some members have even below 60% which is not sufficient for taking an effective decision. Some are 80% which is ok. All the members are concerned about high quality of work equally except few of them are highly concerned about Commitment is equally present in all members high quality of work. Efficiency is less in almost all members except two. So faculty development programme will help upbring the standard to a expected level. Graf shows an U shaped diagram showing the planning strategy among the members The member no 5,7,10,11 are quite on the higher side while rest are in the lower side which shows not in equilibrium. This needs training for those who are in lower side. This table shows almost all the members are equally have equal attitude for problem solving. It is widely varied among all the members which shows there is no uniformity among the members in the application giving a uniform work culture which is influencing the members. It is widely varied among all the members which shows there is no uniformity among the members in the application giving a uniform work culture which is influencing the members. It is widely varied among all the members which shows there is no uniformity among the members in the application giving a uniform work culture which is influencing the members.

**CONCLUSION**

The biggest challenge of any business is to sustain and grow. In order to compete it is essential to know what competencies a business needs. In any business strategy, people are more critical than the plan. Strategies can only be effectively implemented if organizations have a competent force of employees.



Environmental imperatives are playing an important role in redefining the role of human resources (HR) to the tune of a changing environment. An effective HR strategy gives direction to bring in change in an orderly fashion. This can be done by developing a competency model and mapping each job incumbent on these competencies. The HR strategy evolves around building the vision and objectives leading to an action plan through effective and optimal utilization of organizational resources integrated with business processes in order to provide a competitive edge to the organization. Determining whether the workplace possesses the competencies critical for its success is essential. Behaviors necessary for effective performance vary from business to business and role to role. Many organizations have developed competency models aligned with organizational strategy and have linked them to HR processes.

A competency model describes the combination of knowledge, skills and attributes needed for superior performance, and is integrated in the functions of HR, selection, training and development, succession planning and performance management. The model basically addresses two important aspects: what skills, knowledge and characteristics are required to do the job and what behavior has the most direct impact on performance and success in the job.

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## Empirical analysis of Indira Awas Yojana in Orissa with respect to Khurda District.

Pravash R. Mohapatra \*

Dr. Sambhu Prasad Mishra \*\*

### Abstract

Food, Cloth and Shelter, the ABC of basic needs were there, much before Maslow's hierarchy of needs was written. Looking at the mammoth size of population, housing is one of the components considered to be vital for human survival and, therefore, essential for socio-economic development. As part of the efforts to meet the housing needs of the rural poor, Government of India, is implementing Indira Awas Yojana (IAY) since 1985. Earlier, it was a sub scheme of JRY, however, from April 1996, IAY is being implemented as an independent CSS. Orissa, the ugly duckling, among the rest, where 39.9 percent people live below the line of poverty, implementing the rural housing schemes are even a bigger problem. Since, the strategic management process is marred by political intervention, the vision, mission, objectives and goals are diffused by the myopic implementers. Adding insult to injury, Orissa is married to natural calamities of all kind. While the development programs to provide housing for the rural poor, is in its "silver jubilee" year, an acid test is done, w.r.t Khurda district, (home to the capital city of Orissa). Statistical tools like "least square method" is used to have a futuristic view. Data are interpreted in tabular as well as graphical forms to have an insight towards the IAY performance of Khurda district, with reference to the state's performance. Data of IAY-Normal and Upgraded etc are studied. In addition to it, analysis were done from the angle of MoRD and Dept. of Panchyati Raj - the key players to coordinate between the corporate strategy and functional strategy, DRDA-Khurda - the principal implementer, Block Offices and other line organizations - the key coordinators-for below the line activities. Further the targeted intervention of all levels are also critically analyzed.

### Introduction:

Abraham Maslow in his famous theory of motivation, wrote about the basic needs, consists of food, cloths shelter etc. Many rural poor of Orissa (the poorest state of India) does not have any of these listed under the bracket of basic needs. Economic growth of the rural poor is essential and seems like the only solution to put Orissa at par with the other states. "Growth is a natural process, but development involves deliberate intervention - a facilitative intervention to direct and accelerate growth selectively. India recognized the need for development in her rural areas long ago and made provisions for it right from her First Plan period. Having, thus, given due priority to rural development, the Government of India has ever since been trying various strategies for achievement of the goal.<sup>1</sup>



Empowering the people is the right step towards development, which should be on the fore front of the Govt.'s agenda. Empowerment, pioneered by Prof. Mohammad Yunus founder of famous Grameen Bank concept, said "A different kind of business in a broad sense beyond micro credit seems meaningful.- business to do good to people. Where the social goals can be achieved without any intention of profiteering or any personal gain out of it. Entirely devoted to achieve a social goal. And we can define a social goal ourselves, social goal such as helping people get out of poverty or fulfillment of the basic needs."<sup>2</sup>

To have a long lasting effect of rural development the planning process should take care of sustainability. "The growing concern with "sustainable development" reflects a basic belief that the interests of future generations should receive the same kind of attention that those in the present generation get.. The demand of "sustainability" is, in fact, a particular reflection of universality of claims—applied to the future generations vis-à-vis us. The long history of economic analysis provides plentiful examples of two types of approaches, concentrating respectively on (1) opulence and overall wealth, and (2) the quality of human lives. While the latter is the tradition on which the contemporary literature on human development draws, the importance of the former tradition—despite its limitations—must not be overlooked in trying to integrate economic analysis with the demands of human development in terms of fulfilling the basic needs."<sup>3</sup>

In our democratic set up social development with out participation is not possible. "The term 'participation' has recently come to play a central role in the discourse of rural development practitioners and policy makers. At the same time, people's interpretations of the term – and criticisms of other people's interpretations – have multiplied, and the intentions and results of much participation in practice have been questioned or even denounced. In other words, participation has become a hotly contested term, in a debate with deep implications for the ways in which community, society, citizenship, the rights of the poor and rural development itself are conceived, and for the policies that are formulated about and around some of these concepts and the social realities to which they refer."<sup>4</sup>

"Housing is a basic human need and an important constituent of the quality of life. It is also an index of the socio-economic progress of a country. Housing is recognized as a productive activity which stimulates employment and economic growth. It also provides the base for increased access to health, education, water supply and sanitation. According to 1991 census around 3.1 million households were without shelter and another 10.31 million households reside in unsociable kutcha houses. Considering the magnitude of the problem the Central Govt. announced a National Housing and Habitat Policy which aims at providing 'Housing for All' by the end of Tenth Plan Period. For this purpose an action plan for Rural Housing has been prepared. The action plan consists of following elements a- Construction of new houses and conversion of unsociable Kutcha houses in IAY. b- Credit cum subsidy scheme for Rural Housing. c- Innovative stream for Rural Housing & Habitat Development. d- Rural Building Centres. e- Samagra Awas Yojana.. f- Enhancement of equity contribution by MORD to HUDCO. g- National Mission for Rural Housing & Habitat."<sup>5</sup>

However, while economic growth and poverty are linked, the 'elasticity' between the two variables shows great variation. Datt. and Ravallion, through a series of publications have tried to show why economic growth in some areas or sectors reduced poverty faster than elsewhere. Positive impacts of growth in the nonagricultural sector can be reduced by various initial inequalities, such as credit market imperfections, inequality of assets such as land, low basic education attainments and health conditions, houses etc. The extent and nature of disparities within Orissa, particularly regional, social and gender



disparities, needs no emphasis. Drawing on concepts of social exclusion, and on both quantitative and qualitative evidence, this article looks at poverty in its multidimensional nature, ranging from income poverty to human development indicators of health and education, and assesses the social processes responsible for deprivation, including those relating to discrimination, voice and representation <sup>6</sup>

Housing is one of the components considered to be vital for human survival and, therefore, essential for socio-economic development. As part of the efforts to meet the housing needs of the rural poor, Government of India, is implementing Indira Awaas Yojana (IAY) since 1985. Earlier, it was a sub scheme of Jawahar Rozgar Yojana (JRY), however, from April 1996, IAY is being implemented as an independent Centrally Sponsored Scheme (CSS). In the Ninth Five Year Plan Government has identified housing as one of the priority areas under 'Special Action Plan for Social Infrastructure' which aims at 'Housing for All'. Towards this end, the construction of 20 lakh additional housing units annually have been proposed, of which 13 lakh houses have to be constructed in rural areas in addition to the houses constructed under existing programmes. To achieve this, Special Action Plan for Rural Housing was prepared under which a composite housing strategy was adopted. The multi pronged strategy includes modification in the existing housing scheme and certain new initiatives. **Indira Awaas Yojana (IAY)** – The IAY continues to be the most important Centrally Sponsored housing scheme for providing dwelling units free of cost to the rural poor living below the poverty line at the unit cost of Rs.20,000/- in plain areas and Rs.22,000/- in the hilly/difficult areas. It is funded on cost sharing ratio of 75:25 between Central Government and States. The objective of IAY is to provide dwelling units free of cost to the Scheduled Castes (SCs) and Scheduled Tribes (STs) and freed bonded labourers and non - SCs/STs living below poverty line in rural areas. From 1995-96, the IAY benefits have been extended to the widows or next of kin of defense personnel killed in action. Benefits have also been extended to ex-servicemen and retired members of para military forces as long as they fulfill the normal eligibility condition of IAY. 3 per cent of funds are reserved for benefit of disabled below the poverty line in rural areas. However, the benefit to non - SCs and STs shall not be more than 40 percent of IAY allocation. As the IAY has a limited format i.e. construction of new houses, it has been decided to modify to implement it in two parts ; (a) construction of new houses (at an average weighted cost of Rs.20,900) and (b) upgradation of kutchha and unserviceable houses (at a unit cost of Rs.10,000). From 1999-2000, the criteria for allocation of funds to States/UTs under IAY has been changed from poverty ratio to 50 per cent poverty ratio and 50 per cent housing shortage in the State. Similarly, the criteria for allocation of funds to a district in a State has been changed to the SC/ST population and housing shortage, with equal weightage to each of them. The Credit-cum-Subsidy Scheme for Rural Housing was launched with effect from 1.4.1999. The scheme targets rural families having annual income up to Rs.32,000/-. However, preference should be given to rural households belonging to Below Poverty Line category. While subsidy is restricted to Rs.10,000/-, the maximum loan amount that can be availed is Rs.40,000/- The subsidy portion is shared by the Centre and the State in 75:25 ratio. The loan portion is to be disbursed by the commercial banks, housing finance institutions etc. The scheme is being implemented through State Housing Board, State Housing Corporation, Specified Scheduled Commercial Bank, Housing Finance Institution or the District Rural Development Agencies (DRDAs) /Zilla Parishads (ZPs). The scheme Innovative Stream for Rural Housing and Habitat Development has been launched with effect from 1.4.1999, to encourage innovative, cost effective and environment friendly solutions in building/ housing sectors in rural areas. The objective is to promote/propagate innovative housing technologies,

disparities, needs no emphasis. Drawing on concepts of social exclusion, and on both quantitative and qualitative evidence, this article looks at poverty in its multidimensional nature, ranging from income poverty to human development indicators of health and education, and assesses the social processes responsible for deprivation, including those relating to discrimination, voice and representation<sup>6</sup>

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designs and materials in the rural areas. It is being implemented on project basis. All recognized Government organisations/ institutions and reputed NGOs well experienced in the technology promotion and propagation of cost effective and environmental friendly housing technologies, designs and material may apply for funding to the Ministry of Rural Development. One similar activity named as Rural Building Centres (RBCs), with the primary objectives of this scheme are (a) Technology transfer and information dissemination (b) Skill up-gradation through training and (c) Production of cost effective and environment friendly materials/components. For setting up of each Building Centre, a one-time grant of Rs.15 lakh is provided. A National Mission for Rural Housing and Habitat has been set up by the MoRD to facilitate the science and technology inputs, on a continuous basis, in the sector and to provide convergence of technology, habitat and energy related issues in order to provide affordable shelter for all in the rural areas, within a specified time frame and through community participation. The basic objective of Samagra Awaas Yojana (SAY) is to improve the quality of life of the people as well as over all habitat. The scheme attempts to breach the limited shelter concern of 'four walls and a roof' by providing convergence of housing, sanitation and drinking water schemes and ensure their effective implementation by suitable and sustainable induction of technology, Information, Education and Communication (IEC) and innovative ideas. The scheme was launched in 1999-2000 on pilot basis in one Block each of 25 districts of 24 States and one UT selected from the 58 Pilot Districts, which have been identified for implementing a participatory approach under the Accelerated Rural Water Supply Programme (ARWSP). A special Central assistance of Rs.25 lakh is being provided for each Block for undertaking overall habitat development and IEC work with 10% contribution coming from the people. Pradhan Mantri Gramodaya Yojana: Gramin Awaas (PMGY:GA) has been launched only from 2000-01. The Ministry of Rural Development (MoRD) is the nodal Ministry responsible for the implementation and monitoring of the rural housing component of the programme, whose guidelines have been circulated to all States / UTs. The scheme is based on Indira Awaas Yojana. States / UTs are required to send project proposals to the MoRD for release of funds under PMGY:GA. Releases are being made by the Ministry of Finance on the recommendation of the MoRD. An amount of Rs.286.84 crore was released by Ministry of Finance during 2000-01. An outlay of Rs.280.00 crore has been allocated Additional Central Assistance (ACA) for Rural Shelter component of PMGY during 2001-02.<sup>7</sup>

According to 2001 Census there are over 31 million temporary houses in the rural areas of the country, accounting for 23.2 per cent (14 per cent are serviceable and 8.4 per cent are non-serviceable) of the total rural houses. In addition there are about 3.36 million temporary houses in the state (51.75 per cent of total rural houses) according to the 2001 Census. Given this housing scenario, the Government of India has committed itself to providing housing for all in the "National Agenda for Governance".<sup>8</sup> To have an insight regarding the implementation of IAY scheme, data of IAY -Normal of Orissa for the year 1999-2000 to 2006-2007 have been analyzed. In table-1



Table-1 Physical &amp; Financial Achievement of IAY Orissa

Year	Physical Target	House Completed	% of Col-3 of Col-2	Funds Receipt (Rs. In Lakhs.)	Expenditure Made (Rs. In Lakhs)	% of Col-6 of Col-7
	Physical Performance			Financial Performance		
1	2	3	4	5	6	7
1999-00	50639	27394	54	5375	5418	101
2000-01	51824	48465	94	8036	8062	100
2001-02	66026	58996	89	12310	12636	103
2002-03	74735	67892	91	19439	18194	94
2003-04	75465	77850	103	19542	19484	100
2004-05	80228	79668	99	21584	21027	97
2005-06	111431	90627	81	27683	23372	84
2006-07	153236	122640	80.03	29821	25460	85.3
Total	663584	573532	86.429	143790	133653	92.950
Mean	82948	71691.5		17973.75	16706.625	

Source: Panchyati Raj Department, Govt. of Orissa.

The above table exhibits the financial as well as the physical performance of the IAY in Orissa. Data from 1999-2000 to 2006-2007 are exhibited in the above table. Col: 4 and Col:7 represent the performance in percentage of physical and financial aspects respectively. Out of seven years data, only once in physical and twice in financial performance, it exceeds the estimation and crossed beyond the boundary of cent per cent respectively. Three times in col:4 and two times in col:7 the performance is in between 90 to 100 percentage range.. In the year 1999-2000 the physical achievement was only 54 percent against the target of 50639 number of houses. For the rest three years the physical achievement is between the 80 to 90 percentage range, similarly twice in the year 2005-06 and 2006-07 the financial expenditure was 84 percent and 85.3 percent respectively, against the funds availability of 27683 and 25460 lakhs. Taking the mean value of the physical performance, only 64413 houses are completed per year in Orissa. Similarly, the mean value of the expenditure is Rs.15456 Lakhs. Where in Rs.23995/- is the unit price per house per annum.

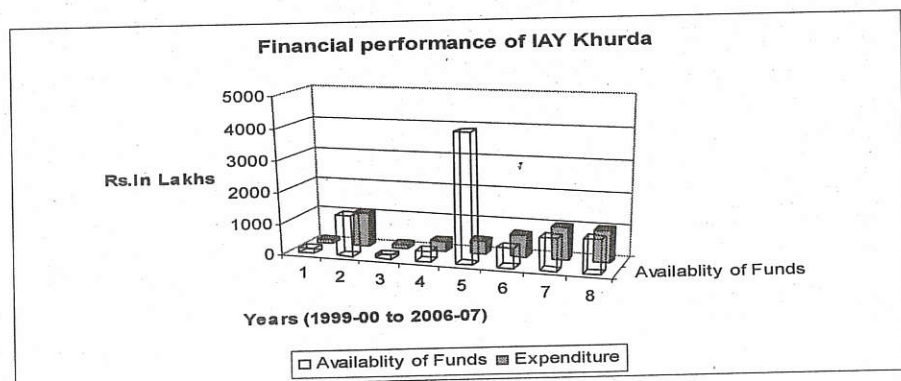
“Khurda District is the home to (Bhubaneswar) the capital city of Orissa, is having population size of 1877000. Among which the rural population is 1071000 and urban population is 806000. Number of SC are 254000 and the number of ST are 97000. Ratio of Urban population to total population is 42.92 percent. Sex ratio is 902 (number of female per 1000 male). Density of population 667 (per SQ. KM). Decennial growth rate is 24.99. Out of total 575000 number of workers, 480000 are main workers, 95000 are marginal workers, 79000 are cultivators and 94000 are agricultural labourers. 79.59 percent of people are literates. 49.91 and 64.98 percent of ST and SC are literates in Khurda respectively”<sup>9</sup>. (2001 Census)

Table-2 IAY KHURDA financial & Physical performance (Rs. In Lakhs)						
Year	Total funds Available	Expenditure	% of EXP	Target	Achievement	% of Achievement
	Financial			Physical		
1	2	3	4	5	6	7
99-00	166.74	120.24	72	580	499	86
00-01	1314.31	1085.87	83	6506	4164	64
01-02	127.23	127.23	100	1673	636	38
02-03	347.81	330.58	95	1688	1503	89
03-04	4073.4	432.41	98	2155	2263	105
04-05	640.11	701.25	109	2523	2725	108
05-06	1023.79	1023.79	100	4033	4033	100
06-07	1071.88	1011.13	94	4322	3890	90
Total	8765.27	4832.5	55.132	23480	19713	83.956
Mean	1095.659	604.0625		2935	2464	

Source : DRDA Khurda

In the Table-2 the financial as well as the physical performance of IAY Khurda are given. In the year 2000-2001 there is a jump in both the financial as well as the physical performance of IAY Khurda. The reason for it is the super cyclone, which created devastation in Orissa and Khurda was one of the district affected by it. Thousands of houses were destroyed and the rural masses were pushed out of gear. House, come under the basic need was given priority. In the financial column three times out of eight the expenditure exceeds the availability of funds. Similarly in the physical achievement three times the achievement of target is over cent per cent. The fact remains is the years that followed the cyclone (2001-2002) the achievement is mere 38 percent.

Graph-1





In the graph the X-axis represent the number of years starting from 1999-2000 to 2006-2007. The Y-axis is the funds in lakhs of rupees. The white bar is the funds availability and the black bar is the expenditure in lakhs of rupees. Bigger bars in the second year shows that more fund were spent to build more number of houses after the cyclone. Both the bars are going up wards, proves that there is a steady rise in both the bars in subsequent years.

Details of the funds availability issue are exhibited in the table-3 below. The opening balances are for the financial year from 1999-00 to 2006-07. In the opening balance for the year was made Rs.228.44 lakhs instead of 46.5 lakhs, because all the unspent amount from various overheads were diverted towards IAY to built large number of houses. The entire Govt. machenaries were redeployed to make sure the basic amenities are fulfilled.

**Table-3** **INDRA AWAS YOJANA in KHURDA Rs. In Lakhs,**

Table-3 INDRA AWAS YOJANA in KHURDA Rs. In Lakhs,				
Year	O.B As on 1.4.	Receipts	Other Receipts	Total funds Available
1	3	4	5	6
1999-2000	20.96	145.78	0	166.74
2000-2001	*46.5	1267.03	0.78	1314.31
2001-2002	5.3	121.93	0	127.23
2002-2003	0	338.55	9.26	347.81
2003-2004	17.23	348.19	41.98	4073.4
2004-2005	-25.01	644.13	0	640.11
2005-2006	-61.14	1084.81	0.12	1023.79
2006-2007	0	1071.88	0	1071.88
* Rs.228.44 lakhs was the O.B for the year2000-01, After the Super Cyclone				

Source:DRDA Khurda

In order to have an insight into the implementation process of the IAY scheme, trend analysis of the financial performance of both the expenditure as well as the funds availability are done to study the pattern of funding and implementation. Least square method is applied for the analysis. Trend Value of expenditure of IAY Khurda are exhibited in the table -4 (Funds availability) and (Table-5 represent expenditure).

$Y = A + B X$ ;  $A = \frac{Y}{n}$ ,  $n$  is the number of years.  $A = 604.06$  and  $B = \frac{\sum XY}{\sum X^2}$ .  $B = 46.12$  Since the series is of even number, hence the mid value is calculated and the sum of square of  $X$ , which is 168 is calculated. By analyzing the value of  $Y$  it is clear that the expenditure trend of IAY is on a growth path.



Table-4 Financial performance of Khurda IAY Expenditure

Year	X	X <sup>2</sup>	XY	Trend
1999-00	-7	49	-841.68	281.15
2000-01	-5	25	-5429.35	373.41
2001-02	-3	9	-381.69	465.67
2002-03	-1	1	-330.58	557.93
2003-04	1	1	432.41	650.18
2004-05	3	9	2103.75	742.44
2005-06	5	25	5118.95	834.70
2006-07	7	49	7077.91	926.96

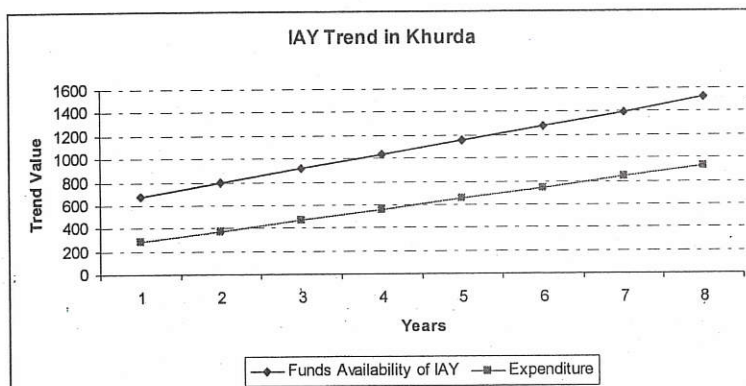
Trend analysis of Funds availability of IAY Khurda .  $Y = A + B X$  ;  $A = \frac{Y}{n}$ , n is the number of years.  $A = 1095.65$  ;  $B = \frac{XY}{X^2}$ .  $B = 60.40$ . The series is of even number, hence the mid value is calculated and the sum of square of X, which is 168 is calculated. By analyzing the value of Y it is clear that the funds availability trend of IAY is on a growth path.

Table-5 Financial performance of Khurda IAY Funds Availability

Year	X	X <sup>2</sup>	XY	Trend
1999-00	-7	49	-1167.18	672.83
2000-01	-5	25	-6571.55	793.63
2001-02	-3	9	-381.69	914.44
2002-03	-1	1	-347.81	1035.24
2003-04	1	1	4073.4	1156.05
2004-05	3	9	1920.33	1276.85
2005-06	5	25	5118.95	1397.66
2006-07	7	49	7503.16	1518.46

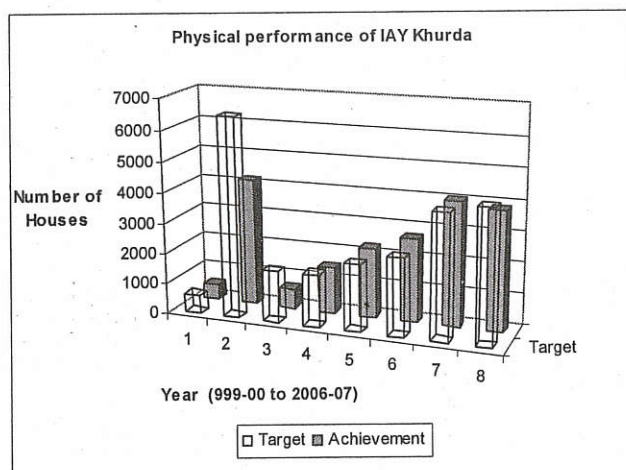
The trends of both the financial aspect (expenditure and funds availability) are shown in the graph below. The X-axis is the unit of year and the Y-axis is the financial trend value. The blue line is the expenditure trend where as the pink line represent the trend of funds availability. Growth pattern is manifested from it.

Graph-2



The physical aspect of the IAY's performance in Khurda district is exhibited below. The X-axis is the unit of years, taken from 1999-2000 to 2006-2007. Here the blue bar represent the target of the number of house to be made available to the beneficiaries under IAY and the maroon bar represent the annual achievement or the number of houses are completed and handed over to the beneficiaries. In these eight years there is a steady growth in line with the financial aspects. More over it is similar to the financial exhibit as in the second year both the bars (blue and maroon) are showing disproportionately high owing to the after effect of super cyclone.

Graph-3



To analyze the overall performance of Khurda Dist. Both financially and Physically, comparison have been made with the average performance of the 30 districts of Orissa. It is important to know Khurda District's performance, since it enjoy many advantages. Or in other ward many districts like KBK (The poorest districts in the Country) and other districts' performances can be guessed by its result.

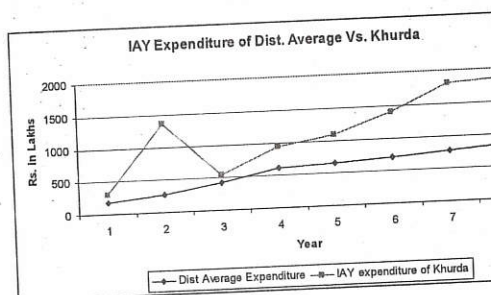
Table-6

## IAY Performance Dist Average VS. Khurda

1	2	3	4	5
Year	Financial Expenditure		Physical Achievement	
	District Average	Khurda	District Average	Khurda
1999-00	180.6	120.24	913	499
2000-01	268.7	1085.87	1615	4164
2001-02	421.2	127.23	1966	636
2002-03	606.4	330.58	2263	1503
2003-04	649.4	432.41	2595	2263
2004-05	700.9	701.25	2655	2725
2005-06	779.06	1023.79	3020	4033
2006-07	848.66	1011.13	4088	3890
Total	4454.92	4832.5	19115	19713
Mean	556.86	604.06	2389	2464
	Rs. In Lakhs		Nos. of Houses	

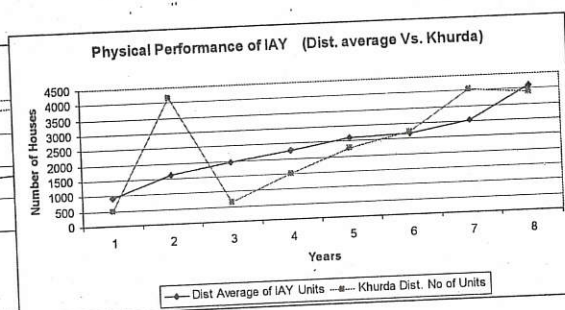
To examine the impact of physical and financial aspect of IAY normal on Khurda district. An average has been taken in Col:2 and Col:4 describing financial and the physical performance respectively. The same figure are compared with that of Khurda. Over all both the performance looks negligible, comparing to the need to provide a house to the BPL family in Khurda as well as in other districts. It is loud and clear that the scheme is only implemented for the sake of it. And there is nothing remarkable about it, except in the earlier tables (Table-1 and Table-2) the achievement some times have recorded over cent per cent in expenditure or utilization of funds. Unless the process of distributing free houses are overhauled, the "go slow" approach will continue over the years. It is for sure that with this type of performance, the tag on Orissa (The poorest state) is not going to change in the near future. Strategically changes are required virtually in every stage, from setting of the target, to allocation of funds including its availability towards the construction to allotment.

Graph-4



Financial Comparison

Graph-5



Physical Comparison



In both the graph (graph-4 and graph-5) financial and physical X-axis is the unit of year. (from 1999-00 to 2006-07) and Y-axis is the Rs. In Lakhs in the first graph and the number of houses in the second. The Blue line represent the district average and the pink line is the performance of Khurda. In connection to the financial issues, Khurda's share is above average for six years out of eight years' data given here. But, in physical terms (number of houses) Khurda, is below average six times out of eight years data exhibited. One year (2000-01) the growth is for super cyclone, where funds from other overheads are diverted to construct more number of houses.

Although it is clear from table -6, that the **mean value** of Col:3 > Col:2 and the same of Col:5 > Col:4. It speaks about the advantage of Khurda being a district nearest to the capital, yet this is marginal. With 1071000 number of people live in rural area of Khurda District, and among them 39.9 percent are under the bracket of BPL. Providing 2464 number of houses per annum in the district is negligible, when the requirement is for 427329 number of houses. It is only 0.56 percent of the requirement. People standing in the queue of getting one IAY house may not have a chance of staying inside one, during their lifetime. Going at this speed it will take decades to fulfill one basic need. Further by that time a sizable rural poor get the house under the scheme, new BPL population may outnumbered the output. Resulting in pushing Orissa towards further poverty .

### Conclusion

The strategic management process should be applied to accelerate the efficiency of the implementing agencies by applying better functional strategies. The Central Govt. and the state should make right kind of Vision, Mission, Objective and Goals. Right from MoRD in the center to the Department of panchyati Raj in the State, from the DPC to DRDAs in the districts, from the Block offices to the Village Panchyats, from the suppliers to the people responsible for quality control, including the beneficiaries etc, every body involved in the entire process should work as small part of a big supply chain to achieve the objective of allowing Orissa to share the front bench along with the other states, which are already there.

As the functional strategy level:- A-Alternative guidelines may be developed and the option of adopting one of them is left to the local administration/PRI. B- Uniform and specific instructions should be framed for providing better transparency in implementation of the programme. C-Mechanism for independent audit and review of the actions of PRI in selection of beneficiaries may be installed. D- In non-disaster prone areas, beneficiaries should be encouraged to construct their houses in traditional way with local material. But in disaster prone, suitable disaster resistant designs should be developed and encouraged. E- Construction of house should be primarily left to the beneficiaries except in disaster prone areas. F- Design of smokeless chullah which are suitable for traditional way of cooking should be developed. G-Options of making common toilets for IAY beneficiaries outside the house premises with provision of hand pumps may be explored. H-There should be some monetary involvement of beneficiary. I- Provision of excise free cement and other material should continue. J- More emphasis needs to be laid on allotment of houses to female members of the family. K-Services of NGOs or independent trained individuals should be provided by the Government and its cost should be built into funds provided under the programme. L-Housing shortage data should be maintained at all levels. "The people of the country are concerned with outcomes. The Prime Minister has repeatedly emphasized the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes. We shall also ensure that

programmes and schemes are not allowed to continue indefinitely from one Plan period to the next without an independent and in-depth evaluation. Civil society should also engage Government in a healthy debate on the efficiency of the delivery mechanism" (Government of India, 2005a, p. 22).<sup>10</sup>

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